

PREM 19/1157

PART 8

SECRET

Confidential Filing

Special Employment Measures  
Employment and Training Bill  
Youth Services Review  
Industrial Training

MANPOWER

PART 1: Jan 1

PART 8: Sept 1

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>2-9-82</del>		<del>12-83</del>					
<del>6-9-82</del>							
<del>14-9-82</del>							
<del>15-9-82</del>							
<del>32-9-82</del>							
<del>1-10-82</del>							
<del>11-10-82</del>							
<del>14-10-82</del>							
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<del>18-10-82</del>							
<del>28-10-82</del>							
<del>1-11-82</del>							
<del>10-11-82</del>							
<del>7-12-82</del>							
<del>10-12-82</del>							
<del>23-12-82</del>							
<del>24-1-83</del>							
<del>24-1-83</del>							
24 Ends							

PREM 19/1157  
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The MERMIONE PARKER Study  
on The MORAL HAZARDS of SOCIAL BENEFITS  
is filed at reverse of this file in yellow folder.

PART 8 ends:-

S/S DHS to PM 27/1/83

PART 9 begins:-

S/S Emp to S/S OES 1/2/83





2:00 AH  
ces Tsy  
D/1

10 DOWNING STREET

From the Principal Private Secretary

24 January 1983

IN CONFIDENCE

Dear Barnaby,

I should report that during a meeting which I had with the Lord Mayor of London (Sir Anthony Jolliffe) on Friday 21 January, he told me that he had had the first of a series of breakfasts with leading business people about the problem of unemployment. His approach, of which there was a trailer in his speech at the Lord Mayor's Banquet, was that business leaders are concerned about unemployment but are not co-ordinating their efforts to do something about it. The Lord Mayor said that he envisaged that the result of his meetings would be a report to the Government and he hoped that the work he was starting would continue after his term of office came to an end.

Among the points which he mentioned to me as having emerged from his meeting was a general feeling that the job centres were for some reason not doing their job - one leading businessman had said that a newspaper advertisement was many times more efficient in producing suitable applicants than an approach to a job centre - and an offer by Lord Sieff to second people from Marks and Spencer to local enterprise agencies. The Lord Mayor (who is an accountant) was wondering whether he could take an initiative with firms of accountants to provide free accountancy advice to people launching their own businesses.

The Lord Mayor said that he had a long talk with Sir Len Murray who had declared himself willing to act as an informal adviser, and was looking forward to a talk with Mr David Young. I commented that I thought it would be useful for the Lord Mayor to keep closely in contact with Mr Young, and suggested that if he wanted to discuss assistance to new business he might contact Mr John MacGregor at the Department of Industry and, if tax aspects were involved, Mr John Wakeham at the Treasury.

I am copying this letter to the Private Secretaries to Mr Wakeham and Mr MacGregor.

Yours sincerely,

Barnaby Shaw Esq.,  
Department of Employment.

Robin Butler

AH

SUBJECT

✓ cc Master



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10 DOWNING STREET

From the Private Secretary

23 December 1982

Dear John,

The Prime Minister held a discussion this morning with the Home Secretary, Chancellor of the Exchequer, the Secretaries of State for Industry, Social Services and Employment, Mr. Sparrow, Mr. Mount, Sir Robert Armstrong and Mr. Gregson.

I attach a copy of a record, prepared by Mr. Gregson (Cabinet Office), of this meeting.

I am sending copies of this letter to the Private Secretaries to the Ministers who attended the meeting and also to Sir Robert Armstrong, Mr. Sparrow, Mr. Gregson and Mr. Mount. I would be grateful if you and they would give this letter and its attachments the usual limited circulation.

Yours sincerely,

Michael Scholar

J.F. Halliday, Esq.,  
Home Office.

SECRET

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NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 23 DECEMBER 1982 AT 11.30  
TO DISCUSS UNEMPLOYMENT

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Present

Prime Minister  
Home Secretary  
Chancellor of the Exchequer  
Secretary of State for Industry  
Secretary of State for Social Services  
Secretary of State for Employment

Mr J Sparrow  
Mr F Mount

Sir Robert Armstrong  
Mr P L Gregson

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The meeting had before it minutes to the Prime Minister from the Secretaries of State for Social Services and Employment received at the beginning of December; from the Chancellor of the Exchequer of 13 December; from the Secretary of State for Employment of 20 December on employment protection legislation; and from the Head of the No 10 Policy Unit on 22 December on information and analysis relating to the labour market.

On the Chancellor of the Exchequer's minute of 13 December it was noted that the Chancellor would be considering further the various matters listed at i.-v. of paragraph 1. On the Secretary of State for Employment's minute of 20 December it was noted that the Chancellor of the Exchequer and the Secretary of State would be having further discussions to resolve any remaining difference of view about the extent to which relief from the provisions of the employment protection legislation should be given to small firms. On the minute from the No 10 Policy Unit of 22 December it was noted that the Secretary of State for Employment would be considering further, in consultation with the No 10 Policy Unit, whether there should be more research into the labour market, in the light of a more precise definition of the matters to be studied and the likely cost.



There was a discussion of the various measures listed in the minutes from the Secretaries of State for Social Services and Employment received at the beginning of December.

On the Enterprise Allowance it was noted that the cost of the scheme appeared to be high (about £3,000 net cost per person off the register) but that this was not out of line with the cost of other special employment measures such as the Community Programme and was critically dependent on the assumptions made about deadweight and displacement. The proposal for a national scheme should not be ruled out entirely because it might bring long term advantages in stimulating the development of new small businesses. On the other hand the effect might in some cases be to put out of business existing small firms who could not compete with the subsidised newcomers. It was therefore agreed that the proposal for a national scheme would be looked at again when the full evaluation of the pilot schemes became available in late 1983.

The question of early retirement was considered in the context of the proposals relating to the Full-time Job Release Scheme and the Partial Retirement Option in the Secretary of State for Employment's minute and the proposals relating to supplementary benefit for the older unemployed (items iii. and iv. and note C) in the Secretary of State for Social Services' minute. It was agreed that action should be confined to those over 60. The future of the Full-time Job Release Scheme would need to be considered in the context of additional bids in the 1983 Public Expenditure Survey. The possibility of introducing a Partial Retirement Option appeared attractive since the cost might be nil or negligible and this should be examined further, although the relationship with the Job Splitting Scheme would need to be considered carefully. On benefits for the older unemployed it was agreed that there might, subject to further investigation, be merit in the concept of an interim retirement benefit. The intention would be to encourage more of the unemployed over 60 to withdraw from the register. At present men over 60 were entitled to the long term rate of Supplementary Benefit after a year on Supplementary Benefit. It might be desirable to devise a benefit for men over 60 who had been unemployed for 6 months or more to carry them through to 65 when they qualified for a state retirement pension. Occupational pensioners would not be eligible. There would need to be a more generous capital disregard than that applicable to Supplementary Benefit. It would also be desirable to remove from the register those who might be registering only to obtain "credits". It would be essential to ensure that the rules for any new scheme were kept as

As simple as possible, It was agreed that the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer and the Secretary of State for Employment, should consider urgently the possibility of a scheme on these lines which might be brought into effect quickly.

On the Temporary Short-time Working Compensation Scheme it was noted that this would come to an end in March 1984 and that the CBI had pressed for a permanent scheme. It was agreed that a permanent scheme would be undesirable. It was also agreed that the Secretary of State for Employment, in consultation with the Chancellor of the Exchequer, should look into the possibility of modifying the scheme (possibly by changing the "once-only" rule, and seeking to reduce deadweight) and of continuing it further on a temporary basis after March 1984. In this context it would be desirable to look at similar schemes in France and West Germany.

The need to prevent the structure and administration of benefits from discouraging market-clearing wage rates, and active job seeking by the unemployed was considered in relation to the Workfare proposal discussed in the Secretary of State for Employment's minute and in relation to the issues about benefit rules and administration discussed in the Secretary of State for Social Services' minute (items i. and ii. and notes A and B). It was agreed that the Workfare proposal needed to be studied further on the basis that it might be confined to the young unemployed, possibly those under 21, but that the relationship of such a scheme with the Community Programme would need to be examined carefully. The question of benefit rules and administration should be examined jointly by the Secretaries of State for Social Services and Employment, in consultation with the Chancellor of the Exchequer. While it might not be desirable to make a new rule that a job should be taken if the pay was not below benefit levels (since this would be a looser regime than that which applied already) it was questionable whether a job should be regarded as "suitable" only if the wages were not below normal standard rates prevailing in the area. Moreover, whether or not changes were made in the rules, it was desirable to ensure that the rules were applied with appropriate rigour in local offices. This further work should take account of information about benefit rules and administrative practices abroad.

23 December 1982

PRIME MINISTER

UNEMPLOYMENT MEASURES

A few comments on the minutes from the Chancellor, the two from Norman Tebbit and one from Norman Fowler. The harvest from the original crop of ideas is a poor one, and the conclusions of the meeting would be best announced together to bulk larger.

Budget  
or before?

ms

I follow the order and numbering of Peter Gregson's brief to you.

5. CHANCELLOR OF THE EXCHEQUER'S MINUTE

- i. Business Start-Up Scheme. The sooner this is extended to existing companies, the better. The Budget would be an ideal opportunity.
- ii. and iii. Labour Taxes and Employment Subsidies. Naturally, we would like to reduce or abolish all labour taxes, not least NIS. But the question of regional labour taxes and subsidies is rather inadequately dealt with. The objections of "high deadweight . . . and limited influence on location decisions" misses the point. Regional Employment premia and the like are not primarily intended to attract employers of labour from the South-East to Merseyside. They are intended to make it cheaper for a Liverpool employer - new or established - to take on more staff, and so reduce the job-destroying effect of national trade union pay rates.

We hope the Quinlan review will consider sympathetically the beneficial "regional devaluation" effect of local labour subsidies for our new shrunken Assisted Areas.

- iv. We hope that raising thresholds will be not merely "a crucial Budget decision" but also "the top Budget priority"!
- v. Public Expenditure Planning. The officials' note is more sympathetic than hitherto to the possibility of stimulating "more public sector capital spending of a labour-intensive kind".

Only yesterday, John Stanley had to tell the House that English local authorities spent no more than 42% of their basic housing allocation last year - only 35% if you include the prescribed amount of their capital receipts from the sale of council houses.

We cannot allow the DOE's fear of an even worse underspend next year to come true. We have to take imaginative measures, however make-shift. Yet Leon's letter to Michael Heseltine (20 December) in effect says that nothing can be done under the existing system of local authority spending. Therefore we have to act outside that system.

We support the suggestion that MSC should be put in charge of a scheme to invite, scrutinise and subsidise additional projects for labour-intensive investment - with the one proviso that these projects must constitute essential public works.

The advantage of using MSC is that it would be less likely than, say, the DOE, to give the wrong signals about the Government's determination to control public expenditure, since it is removed from the hurly-burly of the RSG settlement.

6. SECRETARY OF STATE FOR EMPLOYMENT'S MINUTE

- i. Enterprise Allowance (paras. 3-4). This does seem a waste of money. At £3,000 per person off the register, the cost is high, and there are other ways of encouraging small business to start. Should be scrapped.
- ii. Full-time job release scheme (paras. 5-8). The costs mount year by year, for example towards £1 billion in 1987-88 if the scheme is indefinitely extended to the age of 60. But job release is preferable to a permanent flexible retirement scheme, because it can be reversed when employment prospects improve. Should be cautiously extended to cover 60-year-old men, as funds permit.
- iii. Partial retirement option (paras. 9-11). Easily the best of the options. Negative cost per person, and has humane attraction for people who would like to wind down to half-time. Should be introduced.
- iv. Temporary-short-time working compensation (paras. 12-13). We wonder how many jobs it has really kept safe. It is economically dubious and open to fiddling, but it is cheap (£140 per head). We certainly do not want a permanent scheme which would be a permanent wage subsidy. Could be extended for one more year if the package looks thin without it.

v. Workfare (paras. 14-15). Department of Employment has only just begun to explore the idea, and clearly finds the element of "compulsion" distasteful. The genuine difficulty is how to fit any Workfare scheme in with the Community Programmes. The answer is to devise a Workfare condition within the Community Programme, but for the Under-21s only, and only after the Programme is in full swing, say in 1985. This would not involve any true compulsion, because the under-21s who are mostly living at home could scrape by without benefit. And it would compare favourably with countries such as West Germany where no benefit is payable to the young.

7. SECRETARY OF STATE FOR EMPLOYMENT'S FURTHER MINUTE OF 20 DECEMBER

If we want to make changes, it would be best if they can be quick and simple. We should try to avoid both primary legislation and political controversy as far as possible.

i. Unfair Dismissal Protection (paras. 2-5). We support Mr Tebbit's rejection of the CPRS proposal. Giving employees the power to "waive their rights to protection" sounds unpleasantly like bartering one's birthright. We are more dubious about exemption for new employers. This creates unequal treatment as between firms of the same size. Our preference is for the extension from 2 to 5 years for firms employing 20 people or less. This is what most people think of as a small firm - where face-to-face relations are all-important, and in which the employer finds it difficult to "carry passengers". Similarly, we endorse the idea of exempting altogether the very small firm with less than 5 employees - particularly as this does not require legislation.

ii. and iii. Redundancy Payments and Maternity Provision (paras. 6-8). Again, we support Mr Tebbit. The likely benefits are too small to outweigh the protests of the feminist lobby and the allegations that we were robbing people of their redundancy rights.

8. SECRETARY OF STATE FOR SOCIAL SERVICE'S MINUTE

i. and ii. The DHSS appear reluctant to tighten up the rules for claiming benefit. Their arguments tend to be based on sweeping assertion and inclined to contradiction. In paragraph 2, it is claimed that "The work of my unemployment review officers is very effective" and that "a much more sweeping approach does not seem likely to produce such

effective results". On the other hand, Note A, paragraph 5, says "The main problem arises with younger people who may be content with comparatively low benefit rates which provide them with what is virtually pocket money. They can therefore live fairly comfortably without work, or afford to wait until they are offered well-paid work". Yet the previous paragraph argues that very few vacancies are left unfilled because of low pay.

The DHSS will never of its own volition come up with tighter rules. We suggest that you ask for an independent study to be carried out (and published) into the rules for the payment of unemployment benefits here and abroad.

iii. and iv connect with the job release section in the Department of Employment's paper. I cannot see the advantage of extending the disregards of part-time earnings to long-term unemployed men. This merely encourages them to stay on the register and is unfair, not only to the retired and the disabled, but to the low-paid in full-time employment.

Extending job release to the 50-59-year-olds after 2 years on the register is not only expensive - up to £1,500 per person off the register - but would tend to lure many people permanently out of the labour force at an age when they might be at their peak. Spare funds should be devoted to job release for the 60-65-year-olds.

We believe that these proposals should both be dropped.

v. and vi. The DHSS is still working on these, if not with much enthusiasm. I do not believe that we can go into the Election without some improvement in the position of lower-income families with young children. The two-tier child benefit scheme is one route; because it comes from the Post Office and still is thought of as the Family Allowance, it is, I think, less perceived as a "welfare benefit" than the non-universal DHSS benefits. But if you would prefer help to come through the wage packet (as Patrick Jenkin and some others at the Family Policy Group clearly did), then there is a case for a Family Responsibility Tax Allowance for parents of under-5s. This would raise the tax threshold for those who now suffer most acutely from the Poverty Trap. We have already suggested that the Treasury should be asked to give their views on this possibility and the alternatives to it.



PA

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Michael Scholar Esq  
Private Secretary  
(Home Affairs)  
Prime Minister's Office  
10 Downing Street  
LONDON SW1

21 December 1982

Dear Michael

... I attach notes on the Enterprise Allowance on which  
Michael Grylls MP is expected to question the Prime Minister  
this afternoon. (You asked Jonathan Spencer for this in  
the context of the Economist Intelligence Unit survey of  
the unemployed). Our Ministers are First for Questions this  
afternoon, and a Question from John Lee MP on the Enterprise  
... Allowance will be the first we have to answer. I attach a  
copy of our proposed reply, and of the reply that the

Prime Minister gave Mr Grylls on Monday.

Yours ever

David Shaw

J B SHAW  
Principal Private Secretary

DEPARTMENT OF EMPLOYMENT

TUESDAY 21 DECEMBER 1982

\* 1

MR JOHN LEE (NELSON AND COLNE): To ask the Secretary of State for Employment, if he is satisfied with the progress of the enterprise allowance scheme in North East Lancashire,

MR PETER MORRISON:

I am quite satisfied with progress so far in implementing the Scheme in all 5 pilot areas, and I look forward to the final evaluation of the results.



## EXTENSION OF THE ENTERPRISE ALLOWANCE SCHEME

A decision on whether to extend the scheme will depend largely on our evaluation of the results of the trials we are currently carrying out in 5 pilot areas. These trials are still running.

ENTERPRISE ALLOWANCE A SUCCESS/GOOD SCHEME/TO BE WELCOMED BECAUSE IT ENCOURAGES SMALL FIRMS/NEW ENTERPRISES

As the House knows, we think it is important to encourage the development of new firms and small firms in the economy. We have taken a large number of measures to this end. <sup>I understand</sup> the response to the pilot Enterprise Allowance Scheme has been <sup>fairly</sup> encouraging, but we do not intend to take decisions until we have properly evaluated it.

WHEN WILL A DECISION BE TAKEN

I am not yet in a position to say.

PRIME MINISTER'S QUESTION

FOR PRIORITY WRITTEN ANSWER ON: MONDAY 20 DECEMBER 1982

QUESTION:

MR MICHAEL GRYLLS (NORTH WEST SURREY): To ask the Prime Minister, what steps Her Majesty's Government takes to ensure that information of the Government's measures to encourage the start-up of new businesses by the unemployed is available at jobcentres.

DRAFT REPLY:

The only measure designed specifically to help unemployed people start up in business is the Enterprise Allowance Scheme, which is currently being tested in 5 pilot areas. In these areas the Scheme is well publicised and full information and advice is available in all relevant jobcentres. In the rest of the country, instructions have been issued to jobcentres to enable staff to answer general enquiries about the Scheme.

Jobcentres also use posters and leaflets to make available information about the various measures run by the Department of Industry and Scottish and Welsh Development Agencies to encourage and assist the start up of new businesses more generally, and the training courses run by the Commission itself to assist would-be small businessmen.

BACKGROUND NOTE

1. Michael Grylls shows a particular interest in Small Firms matters generally and has recently asked questions about the Enterprise Allowance Scheme and about how much Government public purchasing policy helps small businesses.
2. The only measure specifically designed to help unemployed people set up in business is the Enterprise Allowance Scheme under which a £40 pw allowance is paid for the first year to compensate for loss of benefit. The Scheme is being tested in 5 pilot areas - Coventry, Medway, part of NE Lancashire, Deeside in NE Wales and North Ayrshire. At the end of November 1606 were in receipt of the Allowance. The pilot trials will last until March 1983. At present, the Scheme is being evaluated to see whether it can be extended to other parts of the country.
3. General Government measures to encourage the development and growth of self employment and the small firms sector are also available to unemployed people. These include ~~the~~ financial measures such as the Loan Guarantee Scheme, advisory help through the Department of Industry's Small Firms Service and the Manpower Services Commission's Small Business and New Enterprise Programme training courses for those starting up on their own.
4. Jobcentres rely initially on a poster and leaflets system to publicise such measures but referrals to Employment Advisors or specialist services outwith MSC's Employment Service is available for more detailed enquiries.



SECRET

Prime Minister (2)

Dec 21/12

(for Thursday's meeting)

CHE  
FM

P.0921

PRIME MINISTER

Unemployment Measures

BACKGROUND

You had a meeting on 14 October with a small group of Ministers to consider a check list of possible measures to deal with unemployment, drawn largely from two overlapping reports, the CPRS Report on Unemployment of September 1982, and the Minford/Smith Report commissioned by the No 10 Policy Unit. Some of the items in the check list were selected for further study and assigned to the Chancellor of the Exchequer and the Secretaries of State for Social Services and Employment as appropriate. Your meeting is to discuss their replies (the Chancellor of the Exchequer's minute of 13 December; undated minutes from the Secretaries of State for Social Services and Employment received at the beginning of December); and a further minute of 20 December from the Secretary of State for Employment on employment protection legislation.

FLAG A  
FLAG B & C  
FLAG D

GENERAL

2. The purpose of the meeting is to continue the process of deciding which measures should be considered further and which should be ruled out. In going through the list you will want to have the following general consideration in mind. The replies and the reports from which they arose in the first place examine the scope for reducing unemployment in a whole range of different ways, for example:

- i. by improving the economics of employing labour (eg by lowering taxes and increasing benefits, such as Child Benefit, for those in work, and by lowering labour taxes, such as the National Insurance Surcharge, borne by employers);



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- ii. by creating new jobs through public expenditure (eg directly by labour intensive public sector works contracts, or indirectly by incentives for small businesses);
- iii. by encouraging full-time or part-time withdrawal from the labour force (eg by financial incentives for early retirement, for job splitting etc);
- iv. by ensuring that the structure and administration of benefits provide an adequate incentive to work.

With the possible exception of iv. (and that may involve extra public service manpower costs) all the various approaches involve either a reduction in revenue or increased expenditure. The more resources the Government makes available for one way of tackling the problem, the fewer resources are available for other ways of doing so. Political considerations apart, it is therefore a matter of judging how the options compare with each other in cost effectiveness. The Chancellor has reserved the Treasury's position on any items involving additional public expenditure. Some of the major items, such as action on tax thresholds, are matters on which the Chancellor will want to defer final decisions until his Budget recommendations.

3. The remainder of this brief consists of an annotated agenda which follows the order of items in the three Ministerial replies. The order in which the three replies are taken is not important, but you may prefer to take the Chancellor's first, since it discusses some of the major items and may help to set the budgetary context for the less central items.

#### CHANCELLOR OF THE EXCHEQUER'S MINUTE

5. i. Business Start-Up Scheme  
The Treasury is working on details of an improved and extended scheme.  
  
The Group may merely wish to take note of the work in hand and await final decisions at the time of the Budget.



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ii. Capital subsidies/labour taxes

More progress may be possible on three fronts: in respect of the National Insurance Surcharge (? further action in the Budget); as a result of the regional policy review (NB changes cannot be made until the next Parliament); and as a result of the review of the structure of corporate taxation (the time scale for decisions on this is not clear).

The Group may be content to await any Budget decisions about the National Insurance Surcharge, and the outcome of the regional policy and corporate taxation reviews.

iii. Regional employment subsidy

This will be covered in the regional policy review but the prima facie objections seem strong.

The Group may wish either to rule out this option now or to await the regional policy review.

iv. Tax thresholds

The Group will want to await the Chancellor's Budget ~~recommendations~~.

v. Public expenditure planning/control

The Cabinet decided on 16 September how to handle Civil Service manpower after 1984. The remaining issues are concerned with improving the appraisal of employment measures, ie documenting the employment impact of spending options, and comparing the real output benefits of special employment measures vis a vis labour intensive construction contracts. The Chancellor agrees that there is some scope for this.

The Group may wish to encourage the Chancellor to see what more can usefully be done to improve the evaluation of public expenditure options in this way.

SECRETARY OF STATE FOR EMPLOYMENT'S MINUTE

6. i. Enterprise Allowance

The question is whether to develop the existing pilot schemes into a national



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scheme from 1 July 1983. The full year cost would be £145 million gross (£65 million net); 22,000 would be removed from the register each year at a cost of about £3,000 per job. It is however suggested that the extra cost might be justified by the benefits from generating new small businesses.

The Group may wish either to rule this option out now as too expensive or to defer a decision until late 1983 when the full evaluation of the pilot schemes will become available.

ii. Full Time Job Release Scheme

The question is whether the Scheme should be extended after 31 March 1984 and, if so, whether the age of eligibility should revert from 62 to 64, stay at 62, or be reduced from 62 to 60. The net cost per person off the register is £1,500. If the Scheme were to be closed the costs would fall to nil by 1987-88; continuation with eligibility at 62 would cost about £350 million a year; reduction to age 60 would cost about £1 billion by 1987-88. In principle it seems desirable to encourage early retirement when unemployment is high, but the cost is considerable.

The Group may conclude that proposals about the possible extension of the Scheme beyond 31 March 1984 should be considered as additional bids in the 1983 Public Expenditure Survey.

iii. Partial Retirement Option

The question is whether to introduce a part-time option into the full-time Job Release Scheme discussed in ii. above with either the same or a different age of eligibility. It would cost nothing because only half the Job Release allowance would be paid while the savings in benefit from employing someone from the unemployed register would remain much the same and because some probable full-time applicants would transfer to the part-time Scheme. In principle this seems desirable since it would encourage early part-time retirement at a time of high unemployment. The only reservation is that the introduction of a



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part-time option might reduce the number of full-time jobs made available. The relationship with the existing Job Splitting Scheme would need to be worked out in detail.

The Group may wish this proposal to be studied further with a view to possible introduction from March 1984, probably with a lower age of eligibility than under the full-time Scheme.

iv. Temporary Short Time Working Compensation

The question is whether to extend the present Scheme beyond 31 March 1984, and, if so, whether temporarily or (as the CBI have requested) permanently. The net cost is low (perhaps £140 per person) because the Government payment to the employer is broadly what would otherwise be paid to the employee in benefit. It is however doubtful whether on a permanent basis employers should be subsidised for having workers on short time.

The Group may wish to keep open the possibility of a temporary extension of the Scheme beyond 31 March 1984. Since the cost of a one-year extension would be small, the Chancellor might be willing to take and announce a decision in advance of the 1983 Public Expenditure Survey if this was thought to be politically desirable.

v. Workfare

Workfare on the US model differs from the existing Community Programme in two important respects: it would be compulsory and the sum paid to the individual would take the form of benefits rather than wages. The question is whether, although some problems have been identified, Ministers want to have a detailed scheme prepared and, if so, what should be the target groups (? young unemployed only) and whether the new scheme should run alongside the Community Programme (which is guaranteed for two years) or should be a successor to it.

Unless the Group wishes to rule out the proposal, it will need to ask for further work to be done, preferably with some guidance about target groups and timing of possible implementation.





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SECRETARY OF STATE FOR EMPLOYMENT'S FURTHER MINUTE OF 20 DECEMBER

7. i. Unfair dismissal protection (including the Chancellor's proposals)

The question is how far small firms should be exempted from the unfair dismissal provisions, at least during the early years of trading. At present an employee has to be employed for one year to get the protection but the period is two years where the employer has 20 or less employees.

Mr Tebbit proposes that very small employers (5 or under) should be exempted altogether, and that new employers with 20 or under employees should be exempted for the first five years of trading. The latter change would require primary legislation. In addition he has set in hand a study of improving the industrial tribunal system.

The Group will wish to decide whether to accept Mr Tebbit's proposals, or to enlarge the exemptions further or not to pursue the exemption route, pending results of the study of improving the industrial tribunal system.

ii. Redundancy payments

The question is whether small firms should be exempted from the obligation to pay redundancy payments, for which an employee qualifies after two years but which are re-imbursed as to 41 per cent from the Fund.

Mr Tebbit argues against a change on the grounds that the requirement does not inhibit recruitment significantly and that it would be difficult to deprive employees of small firms of these rights.

If the Group agrees, the proposal need not be considered further.

iii. Maternity provision

The question is whether the current exemption from the obligation to re-instate after maternity leave should be raised from five employees or less to a higher figure (say 20 or less).

Mr Tebbit recommends against a change on grounds that it would bring little benefit and would be seen as anti-feminist.

If the Group agrees, the proposal need not be considered further.



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SECRETARY OF STATE FOR SOCIAL SERVICES' MINUTE

8. i. Supplementary benefit: requirement to accept work after 3 months if pay and in-work benefits would be not less than income while unemployed

ii. Supplementary benefit: requirement to show evidence of active job search

Mr Fowler recommends against these proposals. On i. he says that claimants may even now be required to take jobs at less than the benefit rate. Comparison with the applicant's benefit level rather than the rate for the job would be complicated. On ii. he says that such evidence could easily be obtained and would be administratively costly to check. He proposes instead developing the existing work of unemployment review officers, selectively directed to the small category of cases (young unemployed without family commitments) where there may be some tendency to take benefits rather than seek work.

Depending on whether they are persuaded by Mr Fowler's arguments, the Group will wish either to rule out these proposals or to ask for further study.

iii. Supplementary benefit for long-term unemployed: increased disregard of part-time earnings

iv. Long-term rate of supplementary benefit: extension of early retirement concession below 60

These proposals are in part related to the proposals in Mr Tebbit's paper about encouraging full-time or part-time early retirement. The problem about iii. is that it would actually enable people with part-time earnings to stay on the unemployment register. The Government is however trying to take people off the unemployment register by making new part-time jobs available for them. The problem about iv. is that although it would, as it were, re-classify the people concerned as retired rather than unemployed, it may be questionable whether it would create genuine new jobs by encouraging early retirement at under 60; and, whether, if it did so, there is an economic justification for removing 50-59 year olds



SECRET

from the work force. Mr Tebbit's proposals are however concerned with the 60-64 year olds.

Although Mr Fowler refers to the MISC 88 discussions as possibly providing funds for these changes, MISC 88 has now decided to make recommendations to the Cabinet which effectively use up the room for manoeuvre by reducing the uprating adjustment from  $2\frac{1}{2}$  per cent to 2 per cent and approving restoration of the 5 per cent abatement of unemployment benefit.

The Group may wish to rule out these proposals.

v. Review of Family Income Supplement

vi. Changes in child benefits

These matters are still being studied.

The Group may wish to await the results of the further studies.

PL

P L GREGSON

21 December 1982

For Thursday's meeting

Prime Minister

①

CONFIDENTIAL

I showed these papers to Mr Sparrow, on a personal basis only.

Qa 06195

To: PRIME MINISTER

May he attend the Thursday 20 December 1982

From: JOHN SPARROW

Yes  
me

meeting?

Unemployment

MS 20/12

1. I have seen Ministers' responses to you, following the meeting of 14 October at which you considered the CPRS checklist of measures on unemployment. I understand that you are to have a further meeting on Thursday and I hope very much that I may attend. Meanwhile, there are three points that I would like to make on the responses you have received.

2. First, I hope we can keep the Enterprise Allowance Scheme alive. It is probably the only one of the Special Employment Measures which aims to create real jobs: and they are real jobs in the small firms sector. The cost per job created may seem high at £2,850 but this figure assumes that none of the jobs created lasts more than a year! And in considering measures to create real jobs we should remember the sort of costs per job that we incur in investment aids or revenue support elsewhere. £3,000 a job would be regarded as very cheap in that league.

3. Secondly, the Chancellor's response on public expenditure implies that there is no room for changing priorities within existing spending programmes. Our view is that there is such scope, and that if Ministers were better informed about the employment consequences of different options it would have an impact on their decisions.

4. Finally, in our report we proposed that an unemployed person could be refused benefit if, after a period, he refused any job which provided a net income no worse than that from benefit. (At present he can refuse if the job pays less than the normal standard rate in the area for the job in question.) Our purpose was to create conditions under which employers - particularly small firms or even householders -

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could offer low paid jobs, especially to the young unemployed, and the unemployed would be given an incentive to accept them. The standard CBI response to this idea is negative, but that simply reflects the different attitudes of large employers and those that we have in mind.

5. I am sending a copy of this minute to Sir Robert Armstrong.

RB.

CONFIDENTIAL



10 DOWNING STREET

Mr. Scholes

---

11.00 on Thursday

23rd December

if no Cabinet

otherwise after  
it.

T. I. N. A.

The next date  
is 24th Jan.

e



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

UNEMPLOYMENT

*with mcs*  
Following your meeting on 14 October I was asked to consider a list of possible fiscal measures which could help to relieve unemployment, and to let you have a report.

(i) Business Start-Up Scheme

As I reported in my minute of 26 November, I am attracted to the idea of extending the Business Start-Up Scheme from start-ups to existing companies. We are now working on the details of a scheme to this end. If we do decide to implement it in the 1983 Budget the main criticisms of the present scheme should disappear.

(ii) Capital subsidies/labour taxes

I agree that there is a strong case for reducing these, and we have made progress in cutting NI surcharge and holding back employers' NI contributions; the reviews of corporate taxation, and of regional economic policy, will give us opportunities to consider further changes  
..... (see the attached note by officials).

(iii) Regional employment subsidy

Some switch of regional subsidy to give more emphasis to employment will be considered as part of the review of regional policy. But the old Regional Employment Premium, introduced in 1967 and finally withdrawn in 1976, was not very cost-effective - it involved high deadweight, was costly to run, and had limited influence on location decisions; there is doubt moreover about whether Community competition rules would now permit a



continuing subsidy of this kind.

(iv) Tax thresholds

Of course I should like to raise thresholds, and the scope for this next year will be a crucial Budget decision.

(v) Public expenditure planning/control

I do not believe we should cease our efforts to restrain public service numbers as distinct from spending, and we shall shortly be considering Civil Service manpower targets after 1984. But in some areas there may be scope for looking at employment effects along with other spending criteria (further discussed in the attached note).

2. I have seen copies of the parallel minutes to you from the Secretaries of State for Employment and Social Services. There are of course links between the two sets of proposals (e.g. job release/early retirement), and with the idea of labour-intensive construction contracts at (v)(b) below. What they have in common, as both minutes acknowledge, is that in order to achieve some first-round reduction in registered unemployment most of the proposals would involve spending a great deal of money, for which there is no room in existing programmes.

3. I am not sure how you propose to handle these progress-reports, but like Norman Tebbit I imagine you may wish to have another meeting to decide on further action. In advance of that, I must make the point that there is no specific provision for any of these measures in the public expenditure review which we have just concluded, and that I assume no decision will be taken on any of these options before their costs have been thoroughly examined and the means for financing them have been identified, taking account of the agreed expenditure totals. On this basis I hope we can meet to decide on which options we want further work done, for example before the Budget; two of the proposals ((iii) and (iv) in Norman Fowler's



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list) are of course already being considered in MISC 88.

4. I am sending copies of this minute to the Secretaries of State for Employment, Social Services and Industry.

G.H.

13 December 1982

CONFIDENTIAL

F. FISCAL MEASURES: Notes by officials on specific proposals

- (ii) Devise a balanced programme of changes in company taxation, national insurance and regional incentives designed to reduce both capital subsidies and labour taxes.

It is right that the Government should seek to correct the present bias of the fiscal system towards capital-intensive and against labour-intensive investment. Some progress has already been made, and more may be possible, though there are bound to be problems in removing existing grants and tax reliefs. Specifically

- the reduction of National Insurance surcharge, and the decision to hold back employers' National Insurance contributions, are recent steps the Government has taken to reduce the burden of taxes on employment;
  - the review of regional economic policy is examining the balance of regional assistance as between capital and labour, and will report to Ministers with options for change by the end of the year;
  - the structure of corporate taxation, including its favourable treatment of capital investment in manufacturing industry, is to be reviewed in the light of the response to the Green Paper published in January 1982.
- (v) Revise public expenditure planning and control procedures to take more account of employment objectives. // This could apply to the Survey process (which will not now affect expenditure before 1984-85) or the handling of bids between Surveys (with more immediate effect in relation to the £1.5 bn Contingency Reserve).

/(a)

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- (a) Document the employment impact of spending options.

To use this as one criterion in deciding priorities between spending options is sensible in principle, and was tried out in the 1981 Survey. But in practice it is not easy to produce reliable quantified information on employment impact. And given the overriding aim over the next four years to reduce public expenditure as a proportion of GDP, spending reviews will necessarily be concerned with securing cuts wherever possible and reducing bids to an absolute minimum, so that there is unlikely to be much scope for 'optional' spending.

- (b) Document real outputs of special employment measures so that Ministers can decide the 'best buys'; examine in particular whether labour-intensive construction contracts could be a better buy than community work.

Clearly the employment and other benefits of rival employment measures (such as those in the recent minute from the Secretary of State for Employment) need to be carefully examined, to consider not only their potential register effects but also any real effects on output and industrial performance (as well as whether room can be found for them within the agreed public expenditure programmes). But some uncertainty about actual effects will remain: special measures such as labour-intensive construction contracts are more difficult to control as to employment and timing. In addition it is difficult to set these in hand without giving the wrong signals to local authorities and other public sector bodies about the Government's determination to control public expenditure. If Ministers wanted to stimulate more public sector capital spending of a labour intensive kind, room would first have to be found by some shift of priorities within agreed public expenditure programmes. Then relevant spending authorities (e.g. regional water authorities, local authorities, perhaps NHS and PSA) would need to be invited to put forward additional projects for labour-intensive investment, with estimates of jobs created. If these applications were approved, authorities' capital allocations might need to be adjusted, and some cost-per-job subsidy might also be needed as an incentive to authorities to co-operate. An agency would be needed to run the scheme, and MSC would be the

/obvious

CONFIDENTIAL

obvious choice (it already deals with local authorities on some of its existing schemes). But Ministers would first need to decide whether they wished to loosen restraints on capital spending and divert resources into a "public works" scheme of this kind.

- (c) Introduce targets for annual running costs, rather than manpower targets, to reduce bureaucracy.

In this area the objective of promoting employment has to be weighed against other Government objectives - to control public-sector use of resources, to maximise efficiency and promote privatisation and contracting out. It could be argued that within a given cost limit on total resources, it is more efficient for managers to make their own choices as between employing people and spending money in other ways. However experience has shown the value of manpower targets as a means of promoting efficiency and holding down expenditure. This is one of the main reasons why we have found it essential to move towards a system of manpower control in the National Health Service. The Chief Secretary is inviting colleagues to establish new manpower targets in the Civil Service for the period after 1984.

74 DEC 1982



CONFIDENTIAL

PRIME MINISTER

Unemployment

I promised to re-submit these papers to you.

You will recall that they spring from the CPRS/Minford studies summarised at Flag A. At your meeting on 14 October you commissioned work in the Department of Employment and in DHSS and the Treasury (my letters at Flag B). The Treasury's contribution - which was to eliminate unnecessary restrictions from the rules governing the Business Start-up Scheme, to devise a programme of changes in company taxation, national insurance and regional incentives designed to reduce capital subsidies and labour taxes, institute a regional employment subsidy, increase tax thresholds by 40%, and revise public expenditure proceedings to take more account of employment objectives - is promised in a few days time.

Mr. Tebbit's and Mr. Fowler's minutes (Flag C) cover all the matters which your meeting instructed them to. At my request, Ferdie Mount has produced an overview (Flag D), giving his assessment of the success of the operation.

Agree that we set up a meeting to take decisions on these recommendations? Should we have the Home Secretary, the Chancellor, Mr. Jenkin, Mr. Fowler and Mr. Tebbit, and perhaps this time also Sir Robert Armstrong, Mr. Gregson and Ferdie Mount? Would you wish to consider announcing these decisions as an "employment package", perhaps in the Budget?

MCS  
After we have received Treasury comments

10 December 1982

Yes  
not.



**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
London SW1

*Michael  
Amendment now  
incorporated. Loge 10/12*

*9 December 1982*

*Dear Michael,*

UNEMPLOYMENT

I am afraid we have discovered an error in note 'C' attached to my Secretary of State's minute of 3 December to the Prime Minister. In the table on page 3, the fourth and final line of figures should be entitled 'Aged 55 and one year on unemployment benefit/supplementary benefit (including the cost for the over 60s).'

I am sending copies of this letter to John Kerr, John Grieve and Barnaby Shaw.

*Yours ever,*

*C A H Phillips*

C A H PHILLIPS  
Private Secretary

Q62. **Dr. Mawhinney** asked the Prime Minister if she will list her official engagements for 7 December.

Q63. **Mr. Christopher Price** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q64. **Mr. Shersby** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q65. **Mr. Lawrence** asked the Prime Minister if she will list her official engagements for 7 December.

Q66. **Mr. Dover** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q67. **Mr. Silvester** asked the Prime Minister if she will list her official engagements for 7 December.

Q69. **Mr. Strang** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q71. **Mr. Tony Speller** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q72. **Miss Joan Lestor** asked the Prime Minister if she will list her public engagements for 7 December.

Q76. **Mr. Gordon Wilson** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q77. **Mr. Tom Clarke** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

**Mr. Parry** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

**Mr. Alton** asked the Prime Minister if she will list her official engagements for 7 December.

**The Prime Minister:** This morning I had meetings with ministerial colleagues and others. In addition to my duties in the House I shall be having further meetings later today. This evening I hope to have an audience of Her Majesty the Queen.

#### United States of America

Q18. **Mr. Russell Kerr** asked the Prime Minister when she next plans to visit the United States of America.

Q33. **Dr. McDonald** asked the Prime Minister when she next plans to visit the United States of America.

Q51. **Mr. McWilliam** asked the Prime Minister when she next plans to visit the United States of America.

Q52. **Mr. McNamara** asked the Prime Minister when she next plans to visit the United States of America.

**The Prime Minister:** On present plans, at the next economic summit in May 1983.

#### Income Distribution

Q19. **Mr. Alexander W. Lyon** asked the Prime Minister to what extent inflation has had a redistributive effect on income during the last four years.

**The Prime Minister:** This information is not available. However, the substantial reduction of the level of inflation under the present Government can only have benefited the recipients of fixed incomes.

#### Mathematics and Science

Q27. **Mr. Andrew F. Bennett** asked the Prime Minister if she is satisfied with the number of girls studying mathematics and sciences at "A" level.

**The Prime Minister:** The proportion of girls among the candidates for A-level examinations in science subjects and mathematics has been increasing, but they still represent only 30 per cent. of A-level candidates in mathematics, 21 per cent. in physics and 34 per cent. in chemistry. We hope that more girls with an aptitude for mathematics and science will take advantage of the opportunities open to them, and there are a number of current national and local initiatives designed to encourage girls to continue studying mathematics and science and to improve their performance in these subjects.

#### Royal Marsden Clinic

Q28. **Mrs. Renée Short** asked the Prime Minister if she will pay an official visit to the Royal Marsden breast cancer screening clinic.

**The Prime Minister:** I have at present no plans to do so.

#### Southport

Q29. **Mr. Allan Roberts** asked the Prime Minister if she will pay an official visit to Southport.

**The Prime Minister:** I have at present no plans to do so.

#### Scotland

Q36. **Mr. Craigen** asked the Prime Minister when she last visited Scotland.

**The Prime Minister:** On 26 and 27 November.

#### European Community Budget

Q54. **Mr. Marlow** asked the Prime Minister by what date she aims to achieve a new long-term formula for the United Kingdom net contribution to the European Economic Community budget.

**The Prime Minister:** It may take some time to secure agreement to a satisfactory reform of the Community's budgetary system. Until then, the Government will insist on adequate refunds under the existing system.

#### Unemployment (Young Persons)

Q68. **Mr. Kilroy-Silk** asked the Prime Minister if she will make a statement on the current level of unemployment amongst young people.

**The Prime Minister:** About 263,000 young people under the age of 18 are currently unemployed.

The Government's special measures programme is directed particularly at this age group. From September 1983 no 16-year-old school leaver need be unemployed, since those unable to find work will be offered either continued education or a place on the youth training scheme. The resources available for the scheme should also be sufficient to cover all unemployed 17-year-old school leavers.

The creation of more jobs will in large part depend on increasing the competitiveness of British industry.



## Written Answers to Questions

*Tuesday 7 December 1982*

### PRIME MINISTER

#### Engagements

Q6. **Mr. Lee** asked the Prime Minister if she will list her official engagements for 7 December.

Q7. **Mr. Timothy Smith** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q8. **Mr. Cunliffe** asked the Prime Minister if she will list her official engagements for 7 December.

Q9. **Mr. Skinner** asked the Prime Minister if she will list her official engagements for 7 December.

Q10. **Mr. Newens** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q11. **Mr. Leighton** asked the Prime Minister if she will list her official engagements for 7 December.

Q12. **Mr. Hannam** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q13. **Mr. Brotherton** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q14. **Mr. Montgomery** asked the Prime Minister if she will list her official engagements for 7 December.

Q15. **Mr. Neubert** asked the Prime Minister whether she will list her official engagements for 7 December.

Q16. **Mr. Ancram** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q17. **Mr. Viggers** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q20. **Mr. Jessel** asked the Prime Minister if she will list her official engagements for 7 December.

Q21. **Mr. Geoffrey Robinson** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q22. **Mr. Joseph Dean** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q23. **Mr. Freud** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q24. **Mr. Ashley** asked the Prime Minister if she will list her official engagements for 7 December.

Q25. **Mr. Straw** asked the Prime Minister if she will list her official engagements for 7 December.

Q26. **Mr. Flannery** asked the Prime Minister if she will list her official engagements for 7 December.

Q30. **Mr. Squire** asked the Prime Minister whether she will list her official engagements for Tuesday 7 December.

Q31. **Mr. Stanbrook** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q32. **Mr. Bob Dunn** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q34. **Mr. Frank Allaun** asked the Prime Minister if she will list her official engagements for 7 December.

Q35. **Mr. Meacher** asked the Prime Minister if she will list her official engagements for 7 December.

Q37. **Mr. Myles** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q38. **Mr. Kenneth Carlisle** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q39. **Mr. Roy Hughes** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q40. **Mr. Temple-Morris** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q41. **Mr. Farr** asked the Prime Minister if she will list her official engagements for 7 December.

Q42. **Mr. Wardell** asked the Prime Minister if she will list her official engagements for 7 December.

Q43. **Mr. Beith** asked the Prime Minister if she will list her official engagements for 7 December.

Q44. **Mr. Trippier** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q45. **Mr. Needham** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q46. **Mr. Ward** asked the Prime Minister if she will list her official engagements for 7 December.

Q47. **Dr. M. S. Miller** asked the Prime Minister if she will list her official engagements for 7 December.

Q48. **Mr. Dobson** asked the Prime Minister what are her official engagements for 7 December.

Q49. **Mr. MacLennan** asked the Prime Minister if she will list her official engagements for 7 December.

Q50. **Mr. Arthur Davidson** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q53. **Mr. John Townend** asked the Prime Minister if she will list her official engagements for 7 December.

Q55. **Mr. Duffy** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q56. **Mr. Hoyle** asked the Prime Minister if she will list her official engagements for 7 December.

Q57. **Mr. Michael Morris** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q58. **Mr. Norman Atkinson** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q59. **Mr. Ray Powell** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q60. **Mr. Greville Janner** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

Q61. **Mr. Maxton** asked the Prime Minister if she will list her official engagements for Tuesday 7 December.

*This is the original*

6 December 1982

*Policy Unit note, now superseded* Policy Unit

PRIME MINISTER

*and incorporated into today's note.*

*MCS 22/12*

We now have the first reports from both Mr Tebbit and Mr Fowler on the follow-up to the Unemployment meeting of 14 October. The harvest from the original crop of ideas is a poor one.

Mr Tebbit's Paper

Enterprise Allowance (paragraphs 3-4). Clearly a waste of money. At £3,000 per person off the register, the cost is absurdly high. Should be scrapped.

Full-time job release scheme (paragraphs 5-8). The costs mount year by year, for example, towards £1 billion in 1987-88 if the scheme is indefinitely extended to the age of 60. But job release is preferable to a permanent flexible retirement scheme, because it can be reversed when employment prospects improve. Should be cautiously extended to cover 60-year-old men, as funds permit.

Part-time job release scheme (paragraphs 9-11). Easily the best of the options. Negative cost per person, and has humane attraction for people who would like to wind down to half-time. Should be introduced.

Temporary short-time working compensation (paragraphs 12-13). We wonder how many jobs it has really kept safe. It is economically dubious and open to fiddling, but it is cheap (£140 per head). We certainly do not want a permanent scheme which would be a permanent wage subsidy. Could be extended for one more year if the package looks thin without it.

Workfare (paragraphs 14-15). Department of Employment has only just begun to explore the idea, and clearly finds the element of "compulsion" distasteful. The genuine difficulty is how to fit any Workfare scheme in with the Community Programmes. The answer is to devise a Workfare condition for the Under-21s only on the Community Programme, but only after the latter is in full swing, say in 1985. This would not involve any true compulsion for the under-21s living at home, and it would compare favourably with countries such as West Germany where no benefit is payable to the young.

Mr Fowler's Paper

(i) and (ii): The DHSS appear reluctant to tighten up the rules for claiming benefit. Their arguments tend to be based on sweeping assertion and inclined to contradiction. In paragraph 2, it is claimed that "The work of my unemployment review officers is very effective" and that "a much more sweeping approach does not seem likely to produce such effective results". On the other hand, Note A, paragraph 5, says: "The main problem arises with younger people who may be content with comparatively low benefit rates which provide them with what is virtually pocket money. They can therefore live fairly comfortably without work, or afford to wait until they are offered well-paid work". Yet the previous paragraph argues that very few vacancies are left unfilled because of low pay.

The DHSS will never of its own volition come up with tighter rules. We suggest that you ask for an independent study to be carried out (and published) into the rules for the payment of unemployment benefits here and abroad.

(iii) and (iv) connect with the job release section in the Department of Employment's paper. I cannot see the advantage of extending the disregards of part-time earnings to long-term unemployed men. This merely encourages them to stay on the register and is unfair, not only to the retired and the disabled, but to the low-paid in full-time employment.

Extending job release to the 50-59-year-olds after 2 years on the register is not only expensive - up to £1,500 per person off the register - but would tend to lure many people permanently out of the labour force at an age when they might be at their peak. Spare funds should be devoted to job release for the 60-65-year-olds.

We believe that these proposals should both be dropped.

(v) and (vi). The DHSS is still working on these, if not with much enthusiasm. I do not believe that we can go into the Election without some improvement in the position of lower-income families with young children. The two-tier child benefit scheme is one route; because it comes from the Post Office and still is thought of as the Family Allowance, it is, I think, less perceived as a "welfare benefit" than

the non-universal DHSS benefits. But if you would prefer help to come through the wage packet (as Patrick Jenkin and some others at the Family Policy Group clearly did), then there is a case for a Family Responsibility Tax Allowance for parents of under-5s. This would raise the tax threshold for those who now suffer most acutely from the Poverty Trap.

We suggest that the Treasury should be asked to give their views on this possibility and the alternatives to it.

### Next Steps

We suggest that you reconvene the Ministers who met on 14 October (preferably after the Treasury has reported too) and ask for the following positive things to be done:

- (a) Part-time job release scheme to be introduced. Job release scheme to be continued and extended to age 60.
- (b) Workfare scheme to be devised for under-21s under the umbrella of a fully established Community Programme.
- (c) Independent study to be made urgently of benefit rules with international comparisons.
- (d) Treasury to analyse the options for helping lower-income families with children.

*fm*  
FERDINAND MOUNT

rc'd  
3/12/82  
(B) g/c IV

PRIME MINISTER

## UNEMPLOYMENT

Following your meeting on 14 October about our policies on unemployment, I was asked to follow up six areas, in consultation with the Chancellor and the Secretary of State for Employment as appropriate. These were:

- (i) requiring supplementary benefit recipients after three months to accept any safe work which gives them an income, with in work benefits, no worse than benefit income when unemployed;
- (ii) requiring supplementary benefit recipients to show evidence of active job search.

2. On these two aspects I enclose notes 'A' and 'B' by my officials. There is no doubt about the value of interviewing unemployed people, whether on supplementary benefit or not, to check whether they are making sufficient efforts to find jobs and, where appropriate, providing the necessary stimulus or help to ensure that they do not remain on benefit longer than can be avoided. The work of my unemployment review officers is very effective, and I have recently taken steps in consultation with Norman Tebbit to make them even more so. The key to success, however, is for their efforts to be directed selectively at those cases where it is likely to do most good. As the notes show, a much more sweeping approach does not seem likely to produce such effective results, apart from the substantial increase in staff resources which would be required, and the resentment which the necessary enquiries and checks would arouse, not least on the part of employers. I think, therefore, that we should concentrate on improving further the existing methods in this field, rather than pursue these two specific proposals.

3. (iii) Applying to supplementary benefit payable to long-term unemployed family men and their wives the same disregards of part-time earnings as apply to supplementary benefit paid to single parents;

E. R.

- (iv) encouraging more early retirement in the short-term by, in effect, allowing 50 to 59 year olds to retire after two years' continuous unemployment.

4. I enclose note 'C' on these two proposals, which are inter-related and can overlap. Here the position is that extending the long-term rate to the older unemployed and improving disregards for long-term unemployed people could both be useful contributions towards making our benefit system more responsive to long-term unemployment. The main problem is resources of money and manpower, which is the reason why I have accorded these measures a lower priority up to now in my public expenditure programme than other measures we have considered. But I suggest that we should look at this again in our forthcoming discussions in MISC 88 on how we handle next year's uprating of benefits and other benefit improvements.

5. I should add that the extension of the Job Release Scheme so that it would offer a partial retirement option has been dealt with by the Department of Employment.

6. (v) Reviewing the Family Income Supplement, including consideration in the short-term of the possibilities of marketing it better and other changes, and in the longer term of the feasibility of devising a replacement in the wage packet for it;

- (vi) examining the implications of the proposition, on which Ferdinand Mount has been in touch with my Department, that there might be a refundable second-tier child benefit.

7. Both these are far-reaching and complicated matters on which work is going ahead; but it will take further time before I can give you a first substantive report back on them.

8. Copies of this minute go to the Chancellor - there has so far been no occasion to consult the Treasury - the Chief Secretary in view of the public expenditure implications of my note 'C', and the Employment Secretary; our two Departments are co-operating closely in all this work.

*[Handwritten signature]*  
N F

23 DEC 1982

12 11 10 9 8 7 6 5 4 3 2 1  
12 11 10 9 8 7 6 5 4 3 2 1

COMPLETION

11

CONFIDENTIAL

PROPOSITION:

SUPPLEMENTARY BENEFIT RECIPIENTS, AFTER THREE MONTHS, TO BE REQUIRED TO ACCEPT ANY SAFE WORK WHERE INCOME IN WORK, INCLUDING IN-WORK BENEFITS, WOULD BE NOT LESS THAN INCOME WHILE UNEMPLOYED

1. The same basic rules apply to unemployment benefit as to supplementary benefit paid to the unemployed, and the aim for some time has been to ensure that all relevant rules are the same so far as the different nature of the benefits allows (see Annex for examples). It is desirable to align the rules and keep them aligned for ease of understanding by the public and by staff, in the interests of efficient administration and to minimise the numbers of civil servants employed in DE and DHSS. Many unemployed people, moreover, receive unemployment and supplementary benefit simultaneously, or move from one benefit to the other. It is assumed, therefore, that the proposal would apply to unemployment benefit as well as to supplementary benefit.

2. At present, a job which is offered to an unemployed beneficiary is judged "suitable", so far as wages are concerned, if those wages are not below the normal standard rates prevailing in the area for the particular job in question. The relationship of the wages to the benefit level in a specific case is irrelevant. Thus a claimant may now be, and in practice occasionally is, required to take a job at less than the benefit rate. If the rule were changed to make the benefit level the criterion, any one who was offered an otherwise suitable job but with a wage of less than his benefit rate would be automatically protected. This protection does not exist now, so that such a change could actually weaken the current arrangements. The new rule would have to apply to wages after compulsory deductions and after allowing for essential expenses (which can be considerably) in view of the comparison with supplementary benefit rates. That would cause further complication in administration, whereas staff are now concerned only with the rate for the job.

3. The evidence from surveys (e.g. from the 1979 DHSS Cohort Study of the Unemployed and from a later study by the DE of long-term unemployed) is that family men with higher benefit levels look for work more assiduously, and find it more quickly, than do people with lower benefit. In fact that wage expectations of unemployed people questioned are in general found to be realistic, and often very modest. The typical unemployed person is shown to be a low wage earner who loses a low-paid job and returns - if he is lucky - to other low-paid employment, sometimes



even for earnings smaller than the benefit he was getting. The proposed change would therefore be unlikely to have any significant effect on the behaviour of people with higher benefit rates. People on lower benefit rates would in any case be unaffected because their income from any work they might get would normally be higher than their benefit income had been.

4. The Manpower Services Commission have recently conducted a small-scale administrative enquiry into the extent to which vacancies remain unfilled because the pay is low, and they found that only about two per cent of vacancies remained unfilled for over four weeks for this reason. These vacancies were concentrated in the South-East, and the numbers elsewhere were negligible.

5. The main problem arises with younger people who may be content with comparatively low benefit rates which provide them with what is virtually pocket money. They can therefore live fairly comfortably without work, or afford to wait until they are offered well-paid work. Although there is no hard evidence to support this, it is the subject of occasional comment by the DHSS Unemployment Review Officers and it fits the evidence that people with family commitments and higher benefit rates look for work more keenly; those without such commitments tend to be the young, or the older claimants whose families have grown up. (It would be wasteful to expend extra control effort on this last group). The new Youth Training Scheme will largely solve the problem for the youngest section of younger beneficiaries. For the rest, a more effective solution would be to increase the number of Unemployment Review Officers, so that there could be more concentrated and continuous unemployment review of beneficiaries aged under 25.

ALIGNMENT OF RULES

Availability (General): An unemployed supplementary benefit claimant is required to be available for employment in the same way as is a claimant for unemployment benefit. Where there is doubt, the Benefit Officer is required to seek a decision from the UB Insurance Officer. This ensures that we do not find the claimant available for the purposes of one benefit but not for the other.

Availability Test: Regulations in both schemes require the claimant to complete the same declaration as part of his claim, and provide for the non-payment of benefit if it is not completed.

Voluntary Unemployment: Where a claimant has left a job without good cause, or unreasonably refused employment (or committed similar misdemeanours) his unemployment benefit is disallowed for up to six weeks. Supplementary benefit is reduced, normally by 40 per cent of the personal scale rate, for the same period. Again, an insurance officer decides whether the penalty is appropriate - even if there is no entitlement to unemployment benefit.

Unemployment Review: The unemployment benefit rules have just been amended to provide for the withdrawal of benefit if a claimant fails to attend an interview with an Unemployment Review Officer, in the same way as already happened with supplementary benefit.

CONFIDENTIALPROPOSITION:

## SUPPLEMENTARY BENEFIT RECIPIENTS TO BE REQUIRED TO PRODUCE EVIDENCE OF ACTIVE JOB SEARCH

1. There was a rule of this nature (that a claimant must be "genuinely seeking" work) for a few years in pre-1930 unemployment insurance legislation, but it was dropped because it was too subjective, in that it tried to ascertain the state of the man's mind, and because it was impossible to operate fairly at a time of high unemployment.
  
2. DHSS Unemployment Review Officers now require small numbers of selected claimants to demonstrate that they are looking for work. Skilled or white collar workers usually produce replies to job-seeking letters which they have sent; and unskilled men produce lists of places to which they have been in search of vacancies. This effort is concentrated on cases selected because of doubts about their attitude to work, because it is expensive in time and staff to deal with the people involved; but the present process can already provide evidence of non-availability for work which in turn can lead to benefit withdrawal or reduction or, in the extreme case, to prosecution for persistently failing to maintain oneself.
  
3. Against that background:-
  - a. The evidence produced by a changing caseload of about 1,500,000 unemployed claimants would have to be, at least, received, looked at, and perhaps filed; and that alone would require an absolute minimum of 1,100 additional staff if, say, the evidence was required fortnightly, when the claimant signed on. If there was any question of following up what was produced, for instance by checking that a man had visited an employer, or even by interviewing the man, the staff cost would be much higher.
  
  - b. Inevitably, many claimants would write after jobs they could not hope to get, simply to acquire evidence. Others would ask gatemen at factories, etc., for a chit to prove that they had asked. Employers would, fairly, complain strongly about the waste of time and effort which would be involved.

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c. Another natural way for claimants to prove job search would be to attend a Jobcentre and obtain a note or similar evidence from the staff there. This would have a staff cost, and would run directly counter to the recent introduction of voluntary registration (which brought staff savings).

d. There could be political embarrassment on a large scale if the public were to compare the requirement with what was done in the 1920's and early 1930's.

e. It would be seen as unfair that this requirement applied to supplementary benefit recipients but not to those who were receiving unsupplemented unemployment benefit. But the alternatives are not attractive. To bring in all unemployment benefit cases would increase the numbers involved substantially with further large staff costs. To restrict the requirement to, say, the long-term unemployed would still involve over a million cases, but a larger proportion would be those with the poorest prospects such as the disabled and older claimants.

4. We know that similar requirements have applied for some years in some states in the USA. The Unemployment Insurance Commission there has reported that the arrangements cause considerable inconvenience, and some expense, to employers because of the time wasted in providing evidence for job seekers to produce.

Department of Health and  
Social Security

December 1982

## PROPOSITION

ALLOW 50 TO 59 YEAR OLDS TO RETIRE AFTER TWO YEARS' CONTINUOUS UNEMPLOYMENT; AND APPLY TO LONG TERM UNEMPLOYED FAMILY MEN AND WIVES THE SAME DISREGARDS OF PART TIME EARNINGS AS FOR SINGLE PARENTS

(These two propositions are considered together, since there is obviously a possibility they will overlap and they need to form a consistent whole).

## EARLY RETIREMENT OF THE OLDER LONG TERM UNEMPLOYED

1. Early retirement is taken to mean an extension of the kind of arrangement which now applies to men over 60 who qualify for the long-term rate of supplementary benefit after a year on supplementary benefit and are then no longer required to be available for employment\*. The objective would be to encourage the effective withdrawal from the labour market of older people who have very little chance in practice of getting a job; in future such people would not be counted in with the unemployed. The idea has the support of the House of Commons Select Committee on Social Services and the House of Lords Select Committee on Unemployment.

2. The particular proposition put forward - two years unemployed and aged between 50 and 59 - is only one of a number of forms an "early retirement" concession could take. The variables are as follows:

- a. Age. The concession amounts to confronting the individual with the probability that he is finished as far as further full time employment is concerned; and expecting the working population to provide for the maintenance of that person without him having to make any further efforts to support himself at all. It must obviously be a matter of judgement how far down the age range one can carry the early retirement proposition and still command general acceptability in these terms. But 50, at any rate at one jump, seems a bit low and it might be better to start at, say, age 55.

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\*Since registration for employment as a condition of title to benefit was abolished in October, early retirement in this sense no longer requires the exercise of a positive option by the claimant to remove himself from the labour market. But in practice this change will not have been particularly significant. Even under the previous arrangements people who had "retired early" were not prevented from looking for or indeed taking work if they wanted to. In this regard they are in the same position as retirement pensioners who similarly can take work if they find it, and are paid by order book instead of through the Unemployment Benefit Office.

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b. The length of the qualifying period. The proposition is for two years and if the age were as low as 50 there seems a strong case for having a period as long as this. And of course for any given age two years will be cheaper in staff and money terms. But the existing rule for the long term rate for the over 60's, as for all other recipients of supplementary allowance, is one year and it would be simpler to stick to the same period if it can be afforded. For many people this does actually mean between one and two years unemployment as they may not come on to supplementary benefit at the outset.

c. Conditions for qualifying. The proposition refers to a period "unemployed" but the present arrangements for the long term rate all relate to a period on supplementary benefit. This is because the long-term rate is intended to recognise the extra needs of people who spend a long period in poverty. If people have not been claiming supplementary benefit then that is likely to be because their resources have been above this level. There is already heavy pressure on this rule because of its effects on the sick in the "invalidity trap" who can never get the long-term rate because their resources are above the short-term rate. Ministers have accepted the case for springing the trap for the sick, but until resources are found to do that it would be extremely difficult to justify more generous treatment for the unemployed. Moreover unemployed people would not normally be permanently excluded from the long-term rate by a "supplementary benefit only" rule but simply come on to it rather later. But if one were to go beyond the supplementary benefit rule, the most workable way of doing it would be to make the rule "on supplementary benefit or unemployment benefit" - to relate it to a period of unemployment as such whether or not any benefit was payable would be extremely difficult to test particularly as it would have to be done retrospectively. Any change would have to extend to the existing arrangements for the over 60's, since one could hardly justify retaining the present less generous rule for them.

#### Options and costings

3. Taking the above factors, age 55 and one year on supplementary benefit ie simply extending the over 60 concession downwards, seems the best proposition. But three alternatives are also shown. The staff costs shown are for DHSS and assume the take on would be done as part of an uprating exercise. All the options ought to provide some staff saving in the Department of Employment, but it will be considerably less than the DHSS cost - perhaps of the order of 50-100, depending on the option chosen.

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	APPROXIMATE <sup>1</sup> BENEFIT COST	APPROXIMATE STAFF COST		NUMBERS BENEFITTING
	£m	TAKE-ON COST	CONTINUING COST	
Aged 55 and 2 years on supplementary benefit	25	60	60	57,000
Aged 55 and one year on supplementary benefit	35	80	90	87,000
Aged 50 and 2 years on unemployment benefit/supplementary benefit (including the cost for the over 60s)	50	140	160	128,000 <sup>2</sup>
Aged 55 and <sup>1 year</sup> <del>2 years</del> on unemployment benefit/supplementary benefit (including the cost for the over 60s)	60	130	160	137,000 <sup>2,3</sup>

IMPROVING EARNINGS DISREGARD FOR THE LONG TERM UNEMPLOYED

4. At present unemployed people and their wives can only earn £4 each without their benefit being affected. After that it is reduced £ for £. This disregard applies also to all other people on supplementary benefit except lone parents who, after the initial disregard of £4, have their benefit reduced by only half of the next £16. The proposition is that this disregard should be extended to long term unemployed family men and their wives.

1. All costs are in terms of forecasts of numbers unemployed as at November 1983 and November 1982 benefit rates.

2. But there will be 2,000 extra cases on the supplementary benefit load ie cases at present on unemployment benefit only.

3. Numbers removed from the unemployment count will be slightly less as some will still be receiving unemployment benefit and will be paid through UBOs.

5. The objective of such an extension would be to encourage unemployed people to undertake useful activity and to support themselves as far as they could by undertaking part time work. The concentration on family men reflects the evidence that they are the worst off and therefore have the most need for the extra income; the concentration on the long term unemployed reflects the need to minimise difficulties about incentives.

6. On the face of it, encouraging the unemployed to help themselves in this way must be sensible; there is support for this kind of idea from both the House of Commons Select Committee on Social Services and from the House of Lords Select Committee on Unemployment. But it does raise a number of issues, which will need to be faced if the proposal is to be taken further. The unemployed would be getting higher disregards than the retired or the disabled, and the number of people who would be better off on benefit than they would be if they were in full time work would be increased. This suggests that it would be necessary to arrange matters so that the unemployed received the higher disregard only when they did not get the long-term scale rate. Limiting the increase in the disregard to family men (ie those with children), if justified on the grounds that it was this group who found it hardest to manage on supplementary benefit, would be bound to prompt the response that the proper way of dealing with that was to increase the rates of benefit, particularly the children's rates. Extending the new concession to wives' earnings as well would carry high staff costs (because wives' and husbands' earnings are dealt with by different systems at the moment). In any case, the extent to which changing the disregard actually affects people's behaviour must depend on the availability of part-time work; to the extent that people's behaviour was not changed, the effect of the new rule would merely be to increase the benefit payable to those already in part-time work.

#### Costs

7. If the higher disregard were made available to all unemployed claimants (regardless of whether they had dependant children) after one year on supplementary benefit, the costs would be as set out below. These figures relate to work claimants would be doing anyway; they do not reflect any increase in either numbers working or the amounts of earnings.



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	APPROXIMATE BENEFIT COST	APPROXIMATE STAFF COST		APPROXIMATE NUMBERS BENEFITTING
	£m	TAKE-ON COST	CONTINUING COST	
Claimant only	2½m	10	40	12,000
Claimant and wife	13	25	170	12,000 claimants plus 30,000 wives

CONCLUSION

8. The case for both these proposals will have to be considered alongside other Government priorities for social security improvements and the extent of the adjustment of next year's uprating of benefits following the 'overshoot' on this year's uprating.

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Prime Minister

(2)

This is the Policy Unit's first reaction to Mr Tebbit's paper which you saw earlier

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this week.

PRIME MINISTER

POLICY UNIT

I attach (tag A) Mr Fowler's

TEMPORARY UNEMPLOYMENT MEASURES

paper. I will resubmit, with

We have read Norman Tebbit's progress report on temporary measures to reduce the number of people appearing on the unemployment register. We are awaiting replies from the Secretary of State for Health and Social Security, due by December 7, and the Chancellor of the Exchequer, expected shortly. This can, therefore, only be a first reaction.

advise and suggestions

Paragraph 4 ends with the following sentence:

for handling,

"Unlike most special employment measures, this scheme would generate new small businesses and real jobs."

later.

This is an admission that, on the whole, special employment measures do not provide genuine, long-term employment. However, before turning to the fundamental question whether it is wise to spend as much as is now being spent on schemes which are, for the most part, avowedly cosmetic, we comment on the five measures considered in Mr. Tebbit's paper.

MCS 3/12

ms

A : ENTERPRISE ALLOWANCES

Register effect: 22,000. Gross yearly cost: £145 million. Net average yearly cost per head (1984-1985): £2,900.

This is the most expensive of the proposed schemes, with a net cost of £3,000 per person taken off the register. In our view it would not be right to take a decision on expanding the scheme until the full evaluation is available at the end of 1983.

More real jobs in industrial enterprise would be created by winding the scheme down and reducing the taxation of businesses by the amount saved.

It is not safe to assume that the jobs created by the enterprise allowance scheme will remain in being in the longer term. It is accordingly unlikely that the high net cost per person will be reduced, as the paper suggests.

B : JOB RELEASE SCHEME

Register effect: 54,000-139,000. Gross yearly cost: £265-420M. Net average yearly cost per head (1984-1985): £1,500.

This is a step towards allowing men the right to retire at 60, which women and civil servants already enjoy. As a temporary measure, the job release scheme is at about the average cost for such schemes, but its long-term impact on overall levels of unemployment is negligible.

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C O N F I D E N T I A L

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It may be that the cost of this and other schemes is now so high per person taken off the register that a progressive reduction in the male retirement age in annual steps would be a less cumbersome, administratively simpler and perhaps cheaper answer.

C : PART-TIME JOB RELEASE SCHEME

Register effect: 27,000. Gross yearly cost: £19 million.  
Net average yearly cost per head (1984-1985): -£90.

The partial retirement option both reduces the numbers on the unemployment register and saves money. It should therefore be adopted at once, whatever the fate of the other schemes.

D : TEMPORARY SHORT-TIME WORKING COMPENSATION SCHEME

Register effect: 35,000. Gross yearly cost: £130 million.  
Net average yearly cost per head: £140.

The central argument against this scheme is that it distorts economic reality by encouraging employers to retain workers whom they cannot in truth afford to employ. The counter-argument that the scheme allows firms to keep work-forces together while they adjust to economic pressures is unlikely to apply in all but a few firms. The scheme is comparatively cheap, at a net cost per head of £140, but its long-term effect must be to distort the market rather than to provide secure employment. Furthermore, the scheme conflicts with our strategy of reducing real wage-costs and increasing productivity. It should be discontinued.

E : WORKFARE

The response from the Department of Employment on workfare is incomplete. We await details of a scheme for workfare. We feel that this scheme, suitably targeted to young people of 21 or under, offers considerable potential and we have sent to the appropriate departments our information on the United States and Jersey (Channel Islands) schemes. We shall withhold our assessment until we see the Department of Employment's scheme, but we believe that it could have a significant effect.

RECOMMENDATIONS

The total net cost of the first four schemes above would be £275m in 1984/85 alone - about £1,230 per head. That cash has to be raised from general taxation and may destroy more jobs in the general economy than it saves by direct subsidy.

C O N F I D E N T I A L

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We recommend:

1. That the Secretary of State for Employment should consider to what extend his Department's proposals coincide or conflict with the Government's overall economic strategy of reducing wage-costs per unit of output.
2. That the Department of Employment's costings for schemes A to D above be closely questioned. We believe that some of the figures for net cost may be understated.
3. That, if the Department is right in its assumption that the part-time job-release scheme (C) both reduces the numbers on the register and saves money, it should be introduced immediately.
4. That the Department should not extend the Enterprise Allowance scheme.
5. That the Department should consider all its temporary unemployment measures in the light of its submissions on the reform of employment protection legislation, which we await. There is a strong case for saying that de-regulation of the manner in which employers may hire and fire would do more to reduce unemployment than schemes A to D added together.
6. That, in the 40th anniversary of the Beveridge Report (which endorsed Workfare), it is now time for a full reconsideration of the financial aspects of the taxation and welfare system, with particular consideration of the unemployment and poverty traps, the piecemeal tangle of benefits, the question of indexation and the long-term effects of undermining the attractiveness to the individual of Adam Smith's two foundations of a sound national economy: hard work and thrift.

*fm*  
FERDINAND MOUNT  
ALAN WALTERS  
ADRIAN SMITH  
PETER SHIPLEY  
CHRISTOPHER MONCKTON

3 DECEMBER, 1982.

C O N F I D E N T I A L  
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December 2, 1982

## YOUTH TRAINING ROLE FOR CHAMBERS OF COMMERCE

### SAYS EMPLOYMENT MINISTER

Chambers of Commerce have an important role in the Youth Training Scheme as managing agents where firms are too small to act as sponsors themselves, Mr David Waddington, Parliamentary Under Secretary of State for Employment, said today.

He told the Leicester and County Chamber of Commerce and Industry that the Government hoped they would assume responsibility for whole training programmes, linking together contributions from small firms who might not have sufficient capacity or administrative back up to undertake such programmes by themselves.

"The Youth Training Scheme will be a major departure from what has been the practice in this country. It will guarantee a full year's vocational training to every 16 year old school leaver who has not found a job. But it also aims to provide - but does not guarantee - 12 month courses of foundation training for 16 year olds already in employment and for unemployed 17 year old school leavers.

"When it comes into operation in September next year it will be catering for 460,000 youngsters," he said.

The Government had allocated £950 million for 1983-84 and £1.1 billion for 1984-85, and having given this huge financial commitment was now looking to other sectors of the community such as employers, unions, voluntary organisations and Chambers of Commerce, as well as the trainees themselves, to play their part. "Training is not a matter just for Government. It is primarily for companies and young people as their employees," said Mr Waddington.

"As potential sponsors, firms will be expected to provide a planned year of work experience and training both on and off the job which has to be approved by the Manpower Services Commission. The on-the-job training will be employer based providing up to 39 weeks of planned work experience for each trainee. The off-the-job element will be a minimum of 13 weeks provided by, for instance, in-house training by large employers or by the use of further education provided by the local college of further education."

Mr Waddington said that this foundation training for all young school leavers was only one part of the Government's New Training Initiative. Its two other objectives were the reform of apprentice training and the provision of better opportunities for adults to train and retrain.

It was extraordinary, he said, that the country had for years been content to muddle along with rigid, scrappy, unco-ordinated and simply inadequate training arrangements.

"It is impossible to over-estimate the importance of the New Training Initiative. It is in fact the first time training policy has really been considered as a whole. For the first time the contributions of employers, trainees, education and training services, standard setting bodies, as well as the Government, are brought together.

"The primary responsibility for training must be with the employer," Mr Waddington said. "He must be in the best position to get the right training for the right person, in the right place and at the right time. The Government, although providing help at the margin, cannot and should not tell him how and when to train. But where the Government has a role is as a catalyst, getting change to happen - and big changes are on the way."



9/52  
 Prime Minister (2)

PRIME MINISTER

UNEMPLOYMENT

mt  
 You will wish to be aware that this has come

\* from the Policy Unit in - I will resubmit to you with advice\* at the weekend

At your meeting on 14 October about our policies for dealing with unemployment I was asked to study certain possible employment measures and to let you have a progress report, after consultation with the Chancellor, by the end of this month. MS 30/11

2 On these particular remits I instructed my officials to work up for our consideration practical schemes, with argumentation at a minimum. The attached note reports the outcome with details of each scheme in separate annexes. More work is needed on the Workfare scheme on which we have only recently obtained information about US practice and experience.

3 The Treasury, DI and DHSS have all been involved in working up the possible schemes and in the calculations of costs. I have ascertained that the Chancellor is content with the progress report.

4 I have not made any recommendations on these schemes, all of which have expenditure implications. I presume it is your intention that we should have another meeting to decide in what way this should be carried forward.

5 I have also, as you asked at your meeting on 14 October, looked at the suggestions made by the CPRS for changes in employee protection legislation, and at other possibilities put forward in that area. This led me to consider the whole question of

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the unfair dismissal jurisdiction. I have just written to Patrick Jenkin about this, and will write to you when I have his views.

6 I am sending a copy of this minute and of the progress report to the Chancellor and to the Secretary of State for Industry and Social Services.

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November 1982

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## EMPLOYMENT MEASURES

Note by the Department of Employment

We report below the position reached so far (with the assistance of the Treasury, DI and DESS) on the five remits for study of special employment measures.

2. We have concentrated on working up practical schemes which could be operated if Ministers chose, and have supplied costings on the comparative basis used for special employment measures. However, two of the proposals studied - the Enterprise Allowance and Workfare schemes - have other aims than that of reducing unemployment and are not to be assessed solely by that criterion.

Enterprise Allowance

3. We were asked to consider a proposal to develop the pilot schemes (which close to applications next March) into a cost effective national scheme. Full evaluation of the pilots will not be possible until late 1983, but there is already sufficient information for taking a decision on whether to extend.

4. Annex 1 outlines a national scheme which could be introduced from 1 July 1983 if Ministers wished. It could take 22,000 people off the unemployment register by the end of the first year at a gross cost of £145m (net cost about half that) in a full year. Viewed as a special employment measure the net cost per person off the register is relatively high at nearly £3,000 and is particularly uncertain, but unlike most special employment measures this scheme would generate new small businesses and real jobs.

Full Time Job Release Scheme

5. We were asked to consider encouraging more early retirement in the short term by extending the JRS to 60+ year olds, including a partial retirement option.

6. No decision has yet been taken to extend the full time JRS beyond March 1984, but PES provision exists for its continuation on the basis of reverting then to an eligibility age of 64 from the present 62. Annex 2 sets out a range of options (with costings) if Ministers wish to continue and/or expand full time JRS beyond March 1984. Occupational pensioners above a certain pension level would be excluded.

7. These are short term schemes. It is particularly important to recognise that, if extension beyond age 62 to, say, 60 is viewed as a continuing option as distinct from being available only for an extra year to March 1985, the annual costs build up rapidly. As an illustration, Annex 2 shows that extending the scheme indefinitely to age 60 would push up the gross costs towards £1 billion in 1987-88.

8. Looking beyond the short term, DESS will now be examining the possibility of a permanent flexible retirement scheme in the light of their Select Committee's report of 24 November. The CPRS are also studying the longer term possibilities in the pension study which they expect to complete by the Spring.

/Partial

Partial Retirement Option

9. The DHSS and CPRS studies will look at the possibilities of offering partial retirement within regular pension schemes. But for the short term Annex 3 shows how we could provide a part time form of JRS to serve the purpose.
10. Some of those who would have taken full time JRS would prefer the part time version if it is on offer and this transfer would bring about some saving in the combined costs of the two schemes. The illustrative scheme in Annex 3 is for a part time option running alongside full time JRS from April 1984 on the assumption that the male age of eligibility for both is the present 62. But the part time scheme could be introduced earlier and could have a different eligibility age eg 60 in relation to the present 62 or, after March 1984, 60 in relation to a full time 64.
11. There is a question of relationship with the new Job Splitting Scheme. Like JRS no decision has been taken to extend JSS beyond March 1984. But if it was available at the same time as a part time JRS, it would be desirable to avoid making payments under each in respect of the same split job.

Temporary Short Time Working Compensation

12. We were asked to consider a proposal for the extension of this scheme, of which Ministers have announced the termination in March 1984. Annex 4 describes a possible form (with costings) in which it could be extended beyond March 1984 (or even expanded before then) if Ministers wished to reverse their announced decision.
13. Annex 4 also considers the possible lines of a permanent scheme. Here the choice lies between putting the present or modified temporary scheme on a permanent basis (which the CBI favour) or introducing a wider scheme designed to cover all short time working whether caused by redundancy or not. If Ministers are interested, we can work up these ideas in more detail, consulting the CBI informally en route.

Workfare

14. We were asked to take forward the proposal for some kind of "Workfare" scheme. Pending information about the American Workfare programme we have not managed to get so far on this as to work up a possible scheme in the same detail as the other remits.
15. Annex 5 sets out the main features of the Workfare approach and questions to be resolved in designing and introducing such a scheme. An important operational question is whether it could, in practice, run alongside the new Community Programme which has been assured continuance for the next two years. Subject to Ministerial guidance, we propose to proceed to work up a scheme in the same detail as the others.

Questions for Ministers

16. It would be helpful to know at this stage:
- (a) which, if any, of the first four of these schemes Ministers wish to be pursued for further consideration. (Annex 6 tabulates their comparative register effect and costs).

/(b)

- (b) if the Enterprise Allowance is to be carried further, Ministers' views on the proposed features and timing of the national scheme.
- (c) if extension of the Job Release Scheme is to be pursued, whether Ministers wish to extend JRS on a full time or combined full and part time basis beyond March 1984, which age(s) of eligibility they have in mind and whether they wish to exclude occupational pensioners above a certain pension level;
- (d) whether Ministers wish to alter their decision to close the Temporary Short Time Working Compensation Scheme in March 1984 and, if so, their views on the proposed basis on which it could be extended as a temporary scheme and whether they wish further consideration given to the possibility of a permanent scheme on the same or on a wider basis.
- (e) whether Ministers find the essential elements of the Workfare approach acceptable as a basis on which officials should prepare a detailed scheme and whether they envisage this operating alongside the present Community Programme or in succession to it.

## ENTERPRISE ALLOWANCE

The Scheme started in March 1982 in five pilot areas (three in England, one in Scotland and one in Wales) Applications close in March 1983. The object is to encourage benefit recipients to leave the unemployment register and establish small businesses

## EVALUATION OF PILOTS

2. Most of the participants are men, with an average benefit level of £37 a week. Half of them had previously worked in manufacturing industry, but the bulk of the new businesses they set up were in construction or services. Even in the first few months of the scheme a significant number of extra jobs (mainly part-time) had been generated for other than the recipients of the scheme. However, a large proportion of participants would probably have set up in business anyway, although some of these would probably have done so in the "black" economy. Further material will be available in December. Full evaluation will not be possible until late in 1983.

3. On present evidence the net cost per person off the register (nearly £3,000) is higher than for most other special employment measures (under £2,000). But there is considerable uncertainty over deadweight and displacement and the net cost figure is sensitive to changes in these assumptions. The scheme compares more favourably with some other types of measure (small firms policy) in employment-creating effectiveness.

4. The scheme has certain special advantages in terms of the thrust of current Government policy. It generates new small businesses, supports entrepreneurial talent and initiative, and unlike most SEMs can be expected to lead to the creation of extra real jobs. Insofar as these jobs continue after the period of subsidy, extra benefits will accrue, thus reducing the overall net cost of the scheme (though we have not been able to cost these longer term effects). The report of the House of Lords Select Committee on Unemployment broadly favoured extension of the scheme.

## FEATURES OF A NATIONAL SCHEME

5. On the experience of the pilots a national scheme starting in July 1983 would have the same main features:

- (i) applicants must be 18 or over;
- (ii) they must have been unemployed or under notice of redundancy for at least 13 weeks;
- (iii) they must have at least £1,000 available to invest in their business and must work in it full time.

- (iv) the allowance should probably stay at £40 a week payable for 12 months for the introduction of the scheme in 1983-84 (but this will be reviewed in the light of further evidence from evaluation);
- (v) access should continue to be available to the Small Firms Counselling Service, but whether a counselling interview should continue to be a prior condition of approval will be reviewed in the light of evidence on its utility which will be available in December.

### Costs

6. The cost of a national scheme to run indefinitely on this basis from 1 July 1983 with the five pilots being continued to that date, would be as follows:-

	1983-84	1984-85	1985-86	1986-87
				£ million
Gross costs	45	145	150	155
Net costs	20	65	65	70

In a full year the scheme should take about 22,000 people off the register.

### Staff

7. Based on current arrangements an extra 400 staff might be required in Jobcentres to run the scheme and a further 20 in DI. These estimates are being reviewed to see whether any increase over the 200 or so staff who would be saved in the Unemployment Benefit Service and DHSS can be eliminated.

### EC Aspects

8. A national scheme might well be notifiable to the Commission, although they have reserved judgment on this point so far. However, it would probably be eligible for and likely actually to secure some assistance from the European Social Fund on the Fund's present criteria, at least for Assisted Areas.

## JOB RELEASE SCHEME

Until 31 March 1984 the Job Release Scheme is open to men aged 62, women aged 59 and disabled men aged 60. Ministers have not considered its future beyond that date, but PES provision has been made on the basis that the age limit for able-bodied men will then revert to 64.

2. The House of Lords Committee argued that the age limit for men should be reduced below 62 and the CBI Cave report included in its calculations a reduction in the minimum age for men to 60.

Options

3. The four main options after March 1984 are set out below (assuming no change in the eligibility age for women and disabled men):

- (a) Close the scheme for fresh applications;
- (b) Raise the eligibility age for men from 62 to 64 (the existing PES provision is based on this assumption);
- (c) Hold the eligibility age for men at 62 for a further year to 31 March 1985;
- (d) Lower the eligibility age for men to 60 for one year to 31 March 1985.

4. The gross costs and register effect of these options are:

	<u>Cost (£m)</u>			<u>Register Effect (March 000s)</u>		
	<u>84-5</u>	<u>85-6</u>	<u>86-7</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
(a) Closed for new applications	265	135	50	54	19	6
(b) 64/59/60 disabled men	290	195	130	70	40	30
(c) 62/59/60 disabled men	345	295	185	101	63	39
(d) 60/59	420	430	325	139	101	75

5. Under options (c) and (d) the scheme remains open at the lower eligibility age for one year only. If instead the extension continued throughout the PES period, the annual cost for option (c) would not vary much from the 1984-5 figure but the costs for option (d) would rise to reach nearly £1 billion in 1987-88.

6. Net costs are less than half the gross costs and the net cost per person off the register is just under £1,500 for each of the options.

Staff

7. Staff requirements are fully offset by savings in the Unemployment Benefit Service.

### Occupational Pensions

Many people entering JRS have small occupational pensions and the addition of the job release allowance just tips the balance in inducing them to leave the labour force. This is much less likely to be true of those with very large occupational pensions and it is proposed to exclude those with occupational pensions of £75 or more a week. (This figure has been selected because at £75.50 a married man with dependent wife totally loses his entitlement to unemployment benefit under the pound-for-pound tapering arrangements). The effect on take up is likely to be minimal (in a 1979 survey only 1% had occupational pensions above £50 a week), but cost-effectiveness should increase as a result of reducing deadweight.

### EC aspects

9. JRS is not notifiable to the European Commission, nor is it eligible for Social Fund assistance.

## PARTIAL RETIREMENT OPTION IN THE JOB RELEASE SCHEME

Some older workers would probably be attracted by part-time Job Release since they could reduce their hours of work in advance of full retirement while their income would fall less than under full-time JRS. At the same time genuine vacancies would be created for those unemployed people willing to leave the register completely to take up part-time jobs where part-time earnings exceed their benefit entitlement.

2. Both the House of Lords Committee and the CBI Cave report advocated forms of part-time JRS.

### A part-time JRS

3. The main features of a part-time scheme would be:

(a) the age limits and other criteria would be the same as full-time JRS except that the applicants would undertake to give up at least half their previous contractual hours, releasing a minimum of 15 hours a week for a replacement;

(b) the part-time Job Release allowance would be exactly half the full-time rate;

(c) each part-time job released under the scheme would be filled by a part-time worker from the unemployment register;

(d) normally neither the replacement part-time worker nor the retiring part-time worker would figure in the unemployment count because the income of most of them would be above benefit levels.

### Costs

4. The following table shows the additional cost and register effect of introducing a part-time JRS alongside the full-time scheme for the year April 1984 - March 1985, assuming a male eligibility age of 62 (as in full time JRS option (c) in Annex 2).

	<u>1984/5</u>	<u>1985/6</u>	<u>1986/7</u>
Additional gross cost (£m)	19	28	17
Net Cost (£m)	-1	-1	1
Additional register effect (end-year)	27,000	16,000	7,000

5. The net cost per person off the register in 1984-85 would be about -£90. This is a minus cost for two reasons. First, because only half the Job Release allowance is paid, while the saving in benefit from employing someone off the unemployed register remains much the same. And secondly, because some potential full-time applicants will transfer to the part-time scheme, representing a considerable saving on the allowance paid.

### Other Options

6. Any of the age-limits for the full-time JRS options in Annex 2 could be adopted for the part-time scheme also. Alternatively, the age-limits could be different in each



Scheme, eg men might enter full-time JRS at 64 and part-time JRS at 60.

#### Connection with the Job Splitting Scheme

7. Ministers have not yet taken a decision whether to extend the Job Splitting Scheme (JSS) beyond March 1984. If JSS were to be extended, the question arises whether the employer of an applicant for part-time JRS should be allowed to claim the £750 JSS for each job split. To allow this would raise the net cost per person off the register under part-time JRS from -£90 to +£1,500 because the Government would then be making two payments (one to the JRS participant and one to the employer) for each part-time job released for an unemployed person. The above costings assume that double payment would not be allowed.

#### Staff

8. The 150 or so extra staff needed to run the scheme would be offset by the reduced requirement of staff otherwise needed to pay benefit.

#### EC Aspects

9. The scheme would not be notifiable to the European Commission, nor would it be eligible for Social Fund assistance.

TEMPORARY SHORT TIME WORKING COMPENSATION SCHEME (TSTWCS)

This scheme was introduced in April 1979 to give a breathing space to firms threatened by redundancy. By early 1984 most of industry likely to use it will have exhausted their entitlement. The Government have therefore announced its closure in March 1984 and the money previously allocated for new applications after that date has been surrendered.

2. The CBI want the scheme to continue. Their ideas are not fully worked out yet, but they are looking for some mechanism for allowing further support for jobs already supported, with a lower Government contribution for the second period of support or a substantial period of time between the first and second periods. They also want the eligibility threshold lowered from 10 threatened redundancies to 5, in order to benefit small firms.

The case for continuing the scheme

3. The scheme was introduced as a temporary measure. Ministers have been conscious of the dangers of propping up indefinitely jobs which are not viable without a subsidy and have always taken the line that each job should be supported once only and for a limited period. Admitting second applications may tend to slow down essential restructuring.

4. On the other hand, it can be argued that, so long as the prospects for strong economic growth are not good, a breathing-space in which firms can keep their labour force together while adjusting to economic pressures is still needed. This scheme is a particularly cheap way of keeping unemployment down and industry seeks its continuation. Also, other EC countries such as Germany and France have continuing schemes.

A possible scheme

5. If Ministers wanted to continue the scheme after March 1984, its main features might then be:

- (i) the existing criteria for eligibility;
- (ii) a second six months' tranche of support for the same jobs 3 years after the date of the previous application for support;
- (iii) as now, workers covered by the scheme would be paid 75% of normal earnings while on short-time. The employer would be reimbursed 50% of normal earnings for the first 6 months of support, as now, and 40% for the second 6 months three years later;
- (iv) the eligibility threshold could be reduced from 10 to 5 threatened redundancies.

6. The gross costs and register effects of such a scheme continued indefinitely after March 1984 might be:

	<u>Gross Cost (£m)</u>	<u>Register Effect at end-year</u>
1984-85	130	35,000
1985-86	55	16,000
1986/87	45	11,000

But expenditure under the scheme can vary greatly according to economic conditions. In 1980-81 for example, it rose to over £360 million.

7. The net cost per person off the register (about £140 in 1984-85) is very low because, with support at 40%, the Government payment to the employer is broadly what would otherwise be paid to the employee in benefit. (This assumes 10% of deadweight, which occurs particularly where employers could avoid redundancies by simply laying off employees and leaving them to claim UB. Even with deadweight of 40%, the figure would rise only to about £900, so that the scheme would still be relatively cheap.)

#### Staff

8. Staff required for processing second applications would be fully offset by savings in staff otherwise required to pay benefit. This is probably also true if the eligibility threshold is lowered to 5, which would bring in many small applications.

#### A permanent scheme

9. The scheme described in paragraph 5 could be extended indefinitely under the powers of the Employment Subsidies Act (a temporary Act which can, however, be renewed for 18 months at a time while unemployment is high). But if Ministers wanted a permanent scheme of short-time working compensation new main legislation would be required. This could be used either

(a) to put the present scheme on a permanent basis, incorporating the changes in paragraph 5. This would be consistent with CBI ideas; or

(b) to provide for a broader-based scheme covering short-time working for any reason. This would replace not only the present special employment measure but also the present use of the unemployment benefit system for short-time working (except for lay-offs) and the guarantee payments under the employment protection legislation. The Labour Government published in 1979 a Bill to establish a permanent scheme of this kind with collective funding by employers and the proposals were fiercely opposed at the time by the CBI.

#### European Aspects

10. Schemes for short-time working compensation are not notifiable to the European Commission and are not eligible for support from the European Social Fund.

**WORKFARE PROGRAMME**

US Federal legislation gives States the option to require recipients of Federal Welfare Benefit to work in return for those benefits. The tasks offered must involve work experience, but not displace existing jobs. Apparently about 15 States have taken up this option but this has been done either on a geographically limited basis and/or has been restricted to certain groups amongst the unemployed, chosen from amongst those eligible for Federal benefits.

Features of US programmes

2. The States' programmes are not standard and many of the details are unclear to us at present (e.g. who disqualifies from benefit and how long does the penalty stand), but most seem to have the following features:-

- (a) work is done in return for the benefit otherwise payable;
- (b) the amount of work in most cases is based on the going rate for the job, which means that most of the jobs are part time;
- (c) almost all of the jobs are in the public service sector. They are not supposed to displace existing employees and must not be capable of being filled by advertising;
- (d) they involve some additional net costs in terms of administration, supervision or training, if provided;
- (e) they are selective about who is required to work but for those in 'target' groups there is a risk of disqualification from benefit if offers of such work are not accepted.

Advantages and Disadvantages

3. Several advantages are claimed for such schemes. They hit at the notion of "something for nothing", and act as a deterrent to the workshy, hence reducing numbers on benefit and benefit expenditure. The work experience they provide, and in some cases training, helps the unemployed to secure real jobs. Many of the unemployed welcome the opportunity of any sort of work

4. On the other hand, the schemes are criticised on the grounds that the jobs are often too menial to provide a useful stepping stone to genuine employment.

It also seems to be the case that extra costs are involved in running such schemes which more than offset any savings as a result of their deterrent effects. Furthermore, there have been difficulties in devising suitable schemes, which have been compounded by the hostility of unions and others.

#### Comparison with the UK

5. There are two key differences from the UK Community Programme. The first is the element of compulsion (no benefit if suitable jobs are not accepted). The second is the fact that benefit is paid, not wages.

6. The administration of benefit in this country does contain an element of compulsion to accept suitable employment in the normal labour market at normal rates of pay if offered. But willingness to participate in temporary work programmes, such as CP, has not so far been made a condition of entitlement to benefit. Indeed, public discussion in recent years of voluntary work opportunities for the unemployed, YTS, and the Community Programme itself has shown considerable resistance to any concept of compulsion. With a workfare programme parallels might be drawn with the 1930s when such 'test work' was last made a condition of entitlement to benefit, albeit on a limited scale.

7. The payment of benefit rather than wages would also mark a significant departure. In one respect practice under the Community Programme in providing part time opportunities, albeit at the going wage rate, is not so different from the Workfare concept where benefit payments are worked off by reference to hours worked at the appropriate wage rate. For example, for someone on £60 benefit, this could mean in practice 30 hours work under a workfare scheme or a part time Community Programme job of 30 hours at £2 an hour. Nonetheless, the outcome for individuals may be different in that under CP earnings are related to the work done, and not to previous benefit entitlement, whereas under Workfare work is tailored to match the benefit entitlement.

#### Problems to be overcome

8. We have more work to do yet to design a possible scheme for this country. But there are obvious problems of which Ministers need to be aware at this stage.

- (a) the number and nature of jobs that could be created under a Workfare scheme. In the light of American experience and the numbers of special programmes already being run in this country (particularly CP) there are likely to be limits to the number of extra jobs that could be created.

- (b) target groups. There are problems over choosing the particular groups amongst the unemployed on which to target a workfare scheme. Some obvious groups such as the long-term unemployed are too large to be feasible if, as seems necessary given the element of compulsion, the aim were to be able to offer a job to all within the target group;
- (c) relationship of Workfare scheme to CP. Given the similarity of the type of work likely to be involved, and possibly of the target population, it looks particularly difficult to run a new Workfare scheme in parallel with the Community Programme. It may be more realistic to think of it as a successor (though the Government have assured CP sponsors that it will run for the next two years);
- (d) political acceptability. Unless the elements of compulsion and working only for benefit can be made politically acceptable, it may not prove practicable to get local authorities and voluntary agencies to produce suitable work opportunities in the numbers required.

## COSTS OF THE VARIOUS POSSIBLE SCHEMES

<u>Scheme</u>	<u>Register effect at March 1985</u>	<u>Gross Costs (£m)</u>			<u>Net Cost</u>
		<u>84-5</u>	<u>85-6</u>	<u>86-7</u>	<u>per person off register (£)</u> <u>(84-5)</u>
A. <u>Enterprise Allowances</u>	22,000	145	150	155	2,900
B. <u>JRS options (1)</u>					
(a) <u>Stopping JRS</u>	54,000	265	135	50	1,500
(b) <u>JRS (men aged 64)(2)</u>	70,000	290	195	130	1,500
(c) <u>JRS (men from 62)(3)</u>	101,000	345	295	185	1,500
(d) <u>JRS (men from 60)(3)</u>	139,000	420	430	325	1,500
C. <u>Part-time JRS (men from 62)</u>	27,000	19	28	17	-90
D. <u>Short-time Working</u>	35,000	130	55	45	140

## FOOTNOTES:

- (1) Figures are cumulative and not to be added together.
- (2) This is broadly the provision in the current PES
- (3) For one year only from 1 April 1984.

Manpower, Special Employment Agency,

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CONFIDENTIAL



10 DOWNING STREET

Manpower  
B/c A. Smith

From the Private Secretary

16 November 1982

Unemployment

I wrote to you on 15 October 1982 about the Government's policies for dealing with unemployment. In this connection you might find it useful to have to hand some details which we have here of Workfare Schemes in Jersey and USA. I therefore enclose:-

- a. papers relating to the Jersey scheme;
- b. a note prepared here on Workfare and Washington telegram number 3189.

I am copying this letter and enclosures to Barnaby Shaw (Department of Employment) and John Kerr (HM Treasury).

M. C. SCHOLAR

David Clark Esq  
Department of Health and Social Security.

CONFIDENTIAL

STATES OF  
JERSEY

Special Employment Scheme for the Winter of 1981/82 -  
Statement.

The Vice-President of the Public Works Committee made  
a Statement in the following terms -

"The States will recall that, for the winter of  
1980/81, the Public Works Committee was asked by the  
Policy Advisory Committee to create and manage a  
Special Employment Scheme for unemployed persons.

During the summer of this year, the Committee  
was once more asked to produce a scheme for the  
winter of 1981/82 in case the unemployment situation  
was such as to require such a scheme for that period.

The number of persons out of work during the  
summer of 1981 has remained comparatively high and it  
is anticipated that the number of unemployed during  
the forthcoming winter will be greater than last year.  
Accordingly, the Committee has, with the co-operation  
of various other States' departments, produced a  
scheme similar to 1980/81 and it is anticipated that it  
will come into operation on 2nd November, 1981.

STATES MINUTES

27th October, 1981.

On 29th September, 1981, the States granted to  
the Finance and Economics Committee an amount of  
£90,000 to cover the cost of the last two months of this  
year and the Committee has established that it is  
possible initially to employ approximately 120 persons  
on work which would not be otherwise undertaken or  
placed with a contractor. The Committee will keep the  
situation under review and will endeavour to introduce  
further work projects to absorb increases in the level of  
unemployment.

The intention is to offer employment for a period  
of eight weeks on the basis of a 40 hour week at the  
rate of £1.65 per hour or £66.00 per week less Social  
Security Contributions and that the total period  
covered by the scheme should be from 2nd November,  
1981 to 31st March, 1982.

The Connétables of the Island with the co-  
operation of the Job Centre will select those persons  
residing in their Parishes, who are to be employed on  
the scheme. It has been agreed that the Parishes will  
repay to the States the full Welfare Benefits due to  
natives up to a maximum of £66.00 per week and that  
the cost of non-natives should be a direct charge on the  
Treasury.

The Committee is hopeful that, in addition to  
providing work to unemployed persons, the scheme will  
result this year in the provision of additional features  
which will be of considerable benefit to the Public in  
general and one of the plans which the Committee has  
approved falls into this category in that it provides  
additional cliff walks which will mean on completion  
that the Island has twelve miles of such walks as  
compared with the present five. The Stapleton land at  
St. Brelade will be opened up as an informal recreation  
area for the public to enjoy; the development of  
protection for the Les Landes Common will be  
completed and other States' departments will be  
offered the necessary labour to undertake minor  
internal and external improvements for which provision  
had not been made in their budgets."

JERSEY:

# PUBLIC WORKS jobs scheme

PUBLIC WORKS president Deputy Don Filleul (St Helier No. 1) announced plans for the 1982/83 winter jobs scheme.

He told the House:—

"The States will recall that, for the winters of 1980/81 and 1981/82, the Public Works Committee was asked to create and manage a special employment scheme for unemployed persons.

"Towards the end of the summer, joint discussions took place between the committee, the Social Security Committee and Policy Advisory Committee, which resulted in an agreement that a similar scheme should be prepared for the winter of 1982/83, and more recently, discussions between the committee, the Policy Advisory, the Social Security and the Finance and Economics Committees and the Supervisory Committee of Constables has finalized such a scheme which is broadly on similar lines to previous years.

"At the end of September, 1982, the unemployment situation was encouraging in that the number of persons out of work was significantly lower than in 1981 at the same time, but by the middle of October, 1982, the number had increased by some 200, giving a total of slightly less than 500. On this basis, the committee considers that there is a need for a special employment scheme for the forthcoming win-

ter and therefore proposes to bring it into operation on Monday, November 1 1982.

"There is remaining from the funds allocated for this purpose for 1982 an amount of approximately £80,000, and the Finance and Economics Committee has included within its estimates of revenue, expenditure and income for 1983 the sum of £125,000.

"It is anticipated that, initially, employment for the first eight-week period could be offered to approximately 100 persons to carry out work which would not otherwise be undertaken or placed with others, and the committee intends to keep the situation under review so as to endeavour to introduce other work projects if the level of unemployment reaches proportions that it is considered desirable to employ greater numbers.

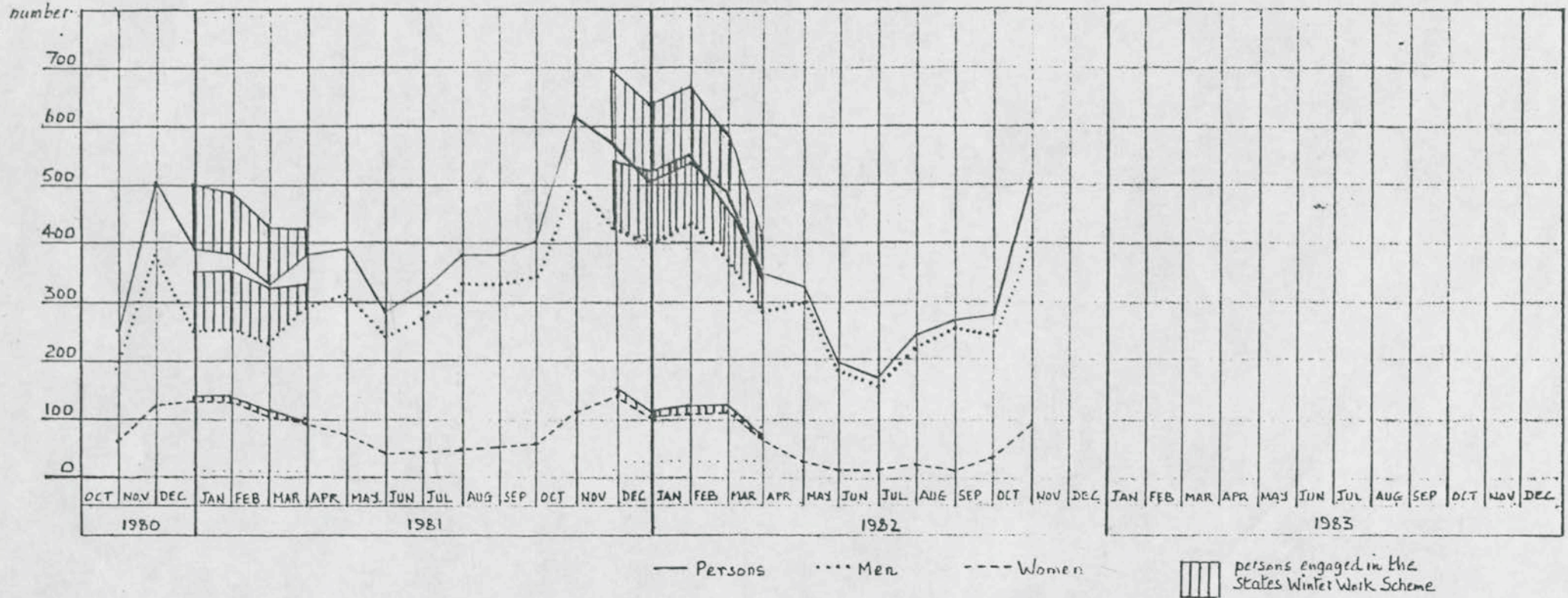
"The intention is, as in the last year's scheme, to offer employment for a period of eight weeks on the basis of a 40-hour week at the rate of £1.90 per hour of £76 per week, less Social Security contributions, and that the total period covered by the scheme should be from November 1, 1982, to approximately March 31, 1983.

"The Job Centre of the Social Security Department will select persons for employment under the scheme, and will submit to the Constables of the Island lists of those persons residing in their parishes, so that the Constables may signify those persons in respect of whom they would pay to the States the full welfare benefit due to a person participating in the scheme. It has been agreed that, where a Constable would not normally grant benefit to a native, the person concerned should be allowed to participate in the work scheme on the basis that his costs would be paid for out of central funds and not recovered from the Constable concerned. Although the intention is to provide work for eight-week periods, it may be necessary to employ a small number of persons capable of performing chargehand duties, in which event it would be intended that these persons should be appointed for the whole of the time that the scheme is operational.

Deputy Filleul added: "If the number of people requiring employment goes above a certain figure, we are going to be short of work. If any organization has work that would qualify for the scheme — that is work that would not otherwise be done and would be an amenity benefit — my department would be glad

MONTHLY UNEMPLOYMENT FIGURES - JERSEY

(i) TOTAL UNEMPLOYED



Source: Monthly Employment Statistics, Social Security Department, Jersey

REPORT OF THE POLICY ADVISORY COMMITTEE ON THE  
PROPOSITION OF DEPUTY N.S. LE BROcq ON  
UNEMPLOYMENT BENEFIT.

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*Presented to the States on 9th December, 1980.*

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**STATES OF JERSEY**

STATES GREFFE

175

1980

P-155

*Price : 35p.*

## REPORT

1. The Policy Advisory Committee had referred to it by the States on 4th November the Proposition lodged by Deputy Norman Le Brocq which asks the States to decide whether they are of the opinion "to instruct the Social Security Committee to prepare legislation for the payment of unemployment benefit, such benefit to be limited to unemployed persons with at least three years Jersey residence, and such other qualifications as the Committee considers necessary".

2. The Policy Advisory Committee in preparing this report on Deputy Le Brocq's Proposition first considered, and agreed, the following general points—

- (i) that the economic conditions prevailing at the present time cannot be expected to improve in the near future and the number of persons out of work may further increase in the months ahead;
- (ii) that the prime objective should be to get persons unfortunate enough to lose their jobs back into employment as soon as possible;
- (iii) that the community has a responsibility to assist persons who are in need, and who are unemployed through no fault of their own;
- (iv) that the personal circumstances of each of those made unemployed cannot be identical and a system of aid which is capable of taking into account those variations is to be preferred to one that does not. (Analysis of the present number unemployed is provided by the statistics attached to this report).

3. The Policy Advisory Committee then gave consideration to the present system of welfare provided by the Parishes and to whether it is necessary to improve that system. The Committee concluded that any new system of assistance for the unemployed should only be contemplated if it could be clearly shown to be superior to the present system, adapted and improved where found necessary, in meeting the needs of the unemployed.

4. The Committee believes two main points can be made in favour of maintaining the present system of welfare—

- (i) the system has worked well over a long period of time. It is an arrangement that is well suited to a small Island community where personal, informed, attention can be given to individual circumstances in a way not possible in larger communities such as the United Kingdom. The system of Parish welfare is now well documented in a booklet produced with the assistance of the Working Party on Need, and the contents of that booklet and the current rates of benefit are attached to this report.
- (ii) In the United Kingdom, where those who have made the appropriate payment of contributions can receive unemployment benefit as a right subject to certain conditions, and limitations of period of payment, it has been shown that the level of benefit that is made available is often not sufficient in itself to meet need. In fact, the majority of those in receipt of such benefit find it necessary to obtain additional assistance from the Supplementary Benefits Commission, where the process of application and review is essentially similar to that undertaken by the Parishes at the present time.

NOTE: The standard rate of unemployment benefit in the United Kingdom at the present time is as follows—

Single person	£20.65
Married couple	£33.40

The Parish welfare rate of benefit as from 1st October, 1980, is as follows—

Single person (excluding allowance for rent)	£29.60
Married couple (excluding allowance for rent)	£49.40

There is little doubt that the adoption of an unemployment benefit scheme on the U.K. model would leave a continuing role for the Parishes in providing supplementary benefits.

5. The Committee is firmly of the opinion that the present welfare system is capable of coping with the needs of the unemployed, and should continue. However, through its

investigations, the Committee has identified certain areas where the present system could be improved, and the following revised procedure has been agreed with the Connétables Committee.

- (a) For those genuinely unemployed, for the first week's unemployment without full pay and for so long as it takes for investigations to be undertaken into their individual circumstances, the welfare payment will be the scale rate of benefit plus full rent allowance, where applicable, providing the total payment does not exceed the amount normally earned;
- (b) the Parishes will continue to obtain from the Social Security Department Job Centre confirmation that the person has registered with the Job Centre and is actively seeking work;
- (c) for those confirmed as genuinely unemployed, the payment of welfare benefit for a period of four weeks in any twelve months will be made on the basis of the welfare booklet, with the exception that no regard will be taken of whether or not the unemployed person owns the property in which he lives, or of other capital resources, but in assessing other sources of income the interest on capital will be taken into account;
- (d) particular regard is to be had for the position of those unemployed who have young children to support, whose current family allowance payments may reflect a previous period of higher earnings. In these cases, the welfare payment for dependent children will be made, where appropriate, according to the supplementary scales previously agreed between the Connétables and the Working Party on Need;
- (e) where long term unemployment exists, the rules set out in the Welfare Booklet will generally apply with the level of benefit to be received adjusted according to the individual's circumstances.

6. It is recognised that in the implementation of the Parish welfare system, where one of the main advantages of the scheme is the opportunity to have regard to personal circumstances, there may be occasions where individuals believe that their case has not been fairly heard or they have not been fairly treated. The Committee believes this difficulty can be overcome through the institution of a formal appeal procedure. It is therefore proposed with the agreement of the Connétables that



there should be a formal appeal procedure to meet such situations should they arise, as follows—

- (i) any person wishing to appeal against the decision of his or her Connétable should personally, or with the aid of a States member, appeal directly to the Greffier of the States;
- (ii) the Greffier of the States in consultation with the Chairman of the Committee of Connétables will convene an appeals body of three independent Connétables to hear the case of the aggrieved applicant. The Connétable of the Parish concerned will, of course, be able to be present and heard at the appeal.

7. The Committee is confident that with the changes proposed the present Parish welfare system can meet the financial needs of those who are made unemployed through no fault of their own, and that there is no call for the adoption of a new approach as suggested in Deputy Le Brocq's proposition.

8. In conclusion, the Committee would re-emphasise that in its view the best way of offering help to the unemployed is to try and get them back into employment. In this context, the Committee has asked the Public Works Committee to give urgent consideration to a programme of relief work for the winter months.

9. The Committee therefore recommends that the States reject the Proposition of Deputy Le Brocq.

### SOCIAL SECURITY DEPARTMENT – JOBCENTRE

Analysis of Persons Registered as Unemployed by Age, Sex and Duration for Month Of NOVEMBER 1980.

No. of Weeks Unemployed.		Age 18			Age 19-24			Age 25-29			Age 30-34			Age 35-39			Age 40-44			Age 45-49			Age 50-54			Age 55-59			Age 60-65		
		a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
One or less	M	2	-	-	8	2	-	2	5	-	6	6	-	3	3	-	2	-	-	4	1	-	1	1	-	1	-	-	2	-	-
	F	3	-	-	6	6	-	5	1	-	-	-	-	-	-	-	1	-	-	1	-	-	-	-	-	-	-	-	-	-	-
Over 1 and up to 4	M	15	1	-	45	4	1	22	11	-	18	5	-	15	1	-	15	4	-	16	-	-	11	2	-	14	-	-	10	-	-
	F	6	-	-	19	14	-	6	9	-	3	1	1	5	-	-	4	1	-	2	-	-	2	1	-	4	-	-	1	-	-
Over 4 and up to 8	M	4	-	-	32	3	-	10	2	-	7	1	-	9	1	-	6	1	-	5	1	-	3	-	-	3	1	-	4	-	-
	F	3	-	-	7	1	-	-	-	-	2	-	-	-	-	-	1	-	-	2	1	-	-	-	-	-	-	-	-	-	-
Over 8 and up to 13	M	2	-	-	3	-	-	2	-	-	2	-	-	-	-	-	-	-	-	2	-	-	1	-	-	-	-	-	1	-	-
	F	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 13 and up to 26	M	2	-	-	3	-	-	3	-	-	1	-	-	3	-	-	-	-	-	-	-	-	2	-	-	1	-	-	1	-	-
	F	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1	-	-	-	-	-
Over 26 and up to 39	M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	F	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 39 and up to 52	M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	F	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Over 52 Weeks	M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	F	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Notes: a denotes persons who have been on the Island for ten years or more.  
 b denotes persons who have been on the Island for less than ten years but more than six months.  
 c denotes persons who have been on the Island for less than 6 months.

## WHAT A WELFARE GRANT IS

The purpose of a Welfare Grant is to provide income for people who are not in full-time work and whose income (if any) from Social Security Benefits or other sources, is not enough to meet their requirements. The Grant does not depend on the payment of contributions.

It is paid either to people who were born locally or who have resided in the Island for at least 5 consecutive years and who can satisfy the relevant conditions.

Subject to the residence conditions mentioned above, a Welfare Grant may also be paid to people who are unemployed, provided that they have first registered at the Job Centre of the Social Security Department as persons genuinely seeking employment and for whom employment cannot be found.

## HOW TO APPLY FOR A WELFARE GRANT

If you reside in St. Helier simply complete the form attached to this leaflet and send it to the St. Helier Welfare Department, 12, Seale Street.

If you are unemployed personal application must be made.

If you require money urgently, there is a space on the application form for you to say so; if you require money very urgently you can of course call at the Welfare Office.

It must be stressed that the above procedure applies only to residents of St. Helier. Should you live elsewhere application must be made to the Constable of the Parish in which you live.

## HOW YOUR APPLICATION IS DEALT WITH

If you reside in St. Helier -- unless you have stated that you require money urgently you will be visited as soon as possible after your application is received. Someone from the Welfare Office will call on you within a few days of receiving your application form to obtain information from you about your circumstances.

These details are needed to work out how much your Welfare Grant will be. All the information you are asked to give is always treated as

strictly confidential and may not be disclosed without your permission.

If you are applying for a Welfare Grant, you may be interviewed at the Welfare Office, instead of at home, if you wish. If you prefer to go to the Welfare Office, put an 'X' in the box on the attached application form; an appointment will be made for you to be interviewed but do not put an 'X' in the box if you would rather be interviewed at home.

If you live in a Parish other than St. Helier – your application will be dealt with by the officials of that Parish. In all cases information will be sought from you about your circumstances so that your Welfare Grant can be worked out. As in St. Helier, you may be interviewed either at your own home or at the Parish Offices, whichever you prefer.

### **HOW YOU ARE PAID**

If you reside in St. Helier – payments are made weekly at the Welfare Office, 12 Seale Street.

By being interviewed at your home and naming an agent to collect on your behalf, it is quite unnecessary, at any time, to call at the office if you do not wish or are unable to do so.

If you live in a Parish other than St. Helier – the arrangements for payment may vary, but in general, you may either collect your Grant from the Parish Offices or the grant can be made to you at your own home.

### **IF YOU ARE UNDECIDED WHETHER TO APPLY**

If you would like to talk things over before deciding whether to apply please get in touch with the Welfare Office in St. Helier (if you reside in that Parish) or the Constable of your Parish so that an appointment can be made for someone to see you, either at home or at the Parish Office, whichever you prefer.

### **HOW YOUR WELFARE GRANT IS WORKED OUT**

The amount of Welfare Grant payable is worked out by assessing a person's requirements and resources on the basis of weekly "scale rates" of benefit and provisions for the treatment of income as decided each year;

The weekly Grant payable is normally the amount by which a person's requirements exceed his resources.

The requirements and resources of a married couple in the same household and those of young dependant children living with them, are counted together and treated as the husband's.

A couple who, although not married, are living together as man and wife are normally treated as if they were married.

### RATES OF WELFARE BENEFITS

The weekly amounts provided for normal requirements that is for day-to-day living expenses are set out on the loose leaf included in this booklet.

In the case of single householders and married couples, a rent allowance will also be paid.

You would receive less than the full amount of the rent actually paid in any of the following circumstances;

- (a) If you are sub-letting;
- (b) If you have someone in your household who is not dependant on you, i.e. an adult son. Such a person will usually be expected to meet his proportionate share of the rent;
- (c) If your rent is considered to be unreasonably high.

### CALCULATION OF RESOURCES

Income – in working out your resources for a Welfare Grant, incomes are treated as follows. Your own and your wife's resources are counted together.

- (a) Old Age and Widow's Pensions and most other Social Security Benefits paid by any country are counted in full as weekly income. Family Allowances and Attendance Allowances paid by the Social Security Department are completely disregarded.
- (b) Maintenance Payments, whether voluntary or under Court Orders, are counted in full as weekly income.

- (c) Earnings – a proportion of any part-time earnings you may have may be counted.
- (d) Savings – you will be entitled to a full Welfare Grant only if your savings or assets do not exceed a certain amount. That amount and the extent to which the grant may be gradually reduced where savings exceed this figure are shown on the loose leaf insertion included in this booklet.

### **RESTRICTED GRANTS**

Your Welfare Grant may be restricted below the amount assessed in the way described above if your income while you are unemployed or temporarily off work would otherwise be more than you would normally earn in your usual occupation.

### **OTHER BENEFITS**

Health Benefits – persons of limited means who are not in regular employment may be eligible to receive medical services of general practitioners and medicines, without charge, through the health scheme operated by the Social Security Department. Applications should be made to that department. Persons of limited means can also receive free contraception through the Family Planning Clinic. Parishes may give further help where a need is not met by the health scheme. For example, supplementary medical and pharmaceutical welfare grants to persons in regular employment; or in relation to items and services not included in the scheme such as spectacles, dentistry, chiropody and appliances, etc.

Welfare Grants are set at a level to provide for normal requirements. Supplementary payments may also be made, on application, towards meeting certain special needs (eg. laundry and special diets). Fuel allowances of varying amounts are also paid by Parishes in cases of need.

## WELFARE GRANTS

## Weekly Rates of Welfare Benefits effective from 1st October, 1980.

For a Single Householder (excluding allowance for rent) .....	29.60
For a Married Couple (excluding allowance for rent) .....	49.40
For a Dependent Relative or someone living in another person's household .....	26.70
Age 18-20 years .....	12.40
16-17 years .....	10.40
11-15 years .....	2.50
5-10 years .....	2.00
Under 5 years .....	1.70

Where persons receiving Welfare Benefits are in employment, a proportion of their earnings, up to a maximum of £12 weekly, is disregarded when assessing welfare grants. The scale followed is -

<i>Amount of Weekly earnings</i>	<i>Proportion of earnings disregarded when assessing amount of welfare grant</i>
	<b>£.</b>
£40 and over	12.00
£35 to £40	11.00
£30 and under £35	10.00
£25 and under £30	10.00
£20 and under £25	9.00
£15 and under £20	8.00
£10 and under £15	7.00
£5 and under £10	5.00
Under £5	4.00

## Adjustments to Welfare Grants in Respect of Personal Savings.

You will be entitled to a full Welfare Grant only if your savings or assets do not exceed £1,800 for a single person (£3,000 for a married couple). Where savings exceed this amount the grant may be gradually reduced according to the following scale—

*Scale for a single person*

<i>Amount of Capital</i>	<i>Assumed Weekly Income</i>
<b>£</b>	<b>£</b>
1800-1825	2.50
1825-1850	2.62½
1850-1875	2.75
1875-1900	2.87½

thereafter 12½p for each extra £25.

## WHAT A WELFARE GRANT IS

The purpose of a Welfare Grant is to provide income for people who are not in full-time work and whose income (if any) from Social Security Benefits or other sources, is not enough to meet their requirements. The Grant does not depend on the payment of contributions.

## 2. WHO CAN QUALIFY

You can qualify for a welfare grant if you are over 18 years of age, were born locally or have resided in the Island for at least five consecutive years and can satisfy the relevant conditions. Application for benefit payments may be made by those under 18 years of age but wherever possible applications in respect of such persons should be made by the parent or guardian to whom payment will be made.

Subject to the residence conditions mentioned above, a Welfare Grant may also be paid to people who are unemployed, provided that they have first registered at the Job Centre of the Social Security Department as persons genuinely seeking employment and for whom employment cannot be found. Further particulars can be found in Part 11 on Page 6.

## 3. HOW TO APPLY FOR A WELFARE GRANT

If you reside in St. Helier simply complete the loose leaf application form inserted in this booklet and send it to the St. Helier Welfare Department, 12 Seale Street.

If you are unemployed personal application must be made.

If you require money urgently, there is a space on the application form for you to say so. If you require money very urgently you can of course call at the Welfare Office.

It must be stressed that the above procedure applies only to residents of St. Helier. Should you live elsewhere application must be made at the Parish Hall to the Constable of the Parish in which you live. Detailed information concerning the different Parishes can be found in Part 14 on Page 7.



#### 4. HOW YOUR APPLICATION IS DEALT WITH

If you reside in St. Helier, unless you have stated that you require money urgently, you will be visited as soon as possible after your application is received. Someone from the Welfare Office will call on you within a few days of receiving your application form to obtain information from you about your circumstances.

These details are needed to work out how much your Welfare Grant will be. All the information you are asked to give is always treated as strictly confidential and may not be disclosed without your permission.

If you are applying for a Welfare Grant you may, if you prefer, be interviewed at the Welfare Office instead of at home. If you prefer to go to the Welfare Office, put an 'X' on the attached application form. An appointment will then be made for you to be interviewed but do not put an 'X' in the box if you would rather be interviewed at home.

If you live in a Parish other than St. Helier your application will be dealt with by the officials of that Parish. In all cases information will be sought from you about your circumstances so that your Welfare Grant can be worked out. As in St. Helier, you may be interviewed either at your own home or at the Parish Offices.

#### 5. HOW YOU ARE PAID

If you reside in St. Helier payments are made in cash at the Welfare Office, 12 Seale Street.

By being interviewed at your home and naming an agent to collect on your behalf, it is quite unnecessary, at any time, to call at the office if you do not wish or are unable to do so.

If you live in a Parish other than St. Helier the arrangements for payment may vary but in general you may either collect your grant from the Parish Offices or the grant may be made to you at your own home.

#### 6. IF YOU ARE UNDECIDED WHETHER TO APPLY

If you would like to talk things over before deciding whether to apply please get in touch with the Welfare Office in St. Helier (if you reside in that Parish) or the Constable of your Parish so that an appointment can be made for someone to see you, either at home or at the Parish Office.

## 7. HOW YOUR WELFARE GRANT IS WORKED OUT

The amount of Welfare Grant payable is worked out by assessing a person's requirements and resources on the basis of weekly "scale rates" of benefit and provisions for the treatment of income as decided each year.

The weekly Grant payable is normally the amount by which a person's requirements exceed his resources.

The requirements and resources of a married couple in the same household and those of young dependent children living with them, are counted together and treated as the husband's.

A couple who, although not married, are living together as man and wife are normally treated as if they were married.

## 8. RATES OF WELFARE BENEFITS

The weekly amounts provide for normal requirements, that is for day-to-day living expenses, are regularly reviewed and are set out on the loose leaf included in this booklet.

In the case of single householders and married couples, an allowance for rent where appropriate, will also be paid.

You will receive less than the full amount of the rent actually paid in any of the following circumstances;

- (a) If you are sub-letting;
- (b) If you have someone in your household who is not dependent on you, i.e. an adult son. Such a person will usually be expected to meet his proportionate share of the rent;
- (c) If your rent is considered to be unreasonably high.

## 9. CALCULATION OF RESOURCES

In working out your resources for a Welfare Grant, incomes are treated as follows. Your own and your wife's resources are counted together.

- (a) Old Age and Widow's Pensions and most other Social Security benefits, including family Allowances, paid by any country are counted in full as weekly income. The first £4 of Disablement Allowances paid by the Social Security Department are disregarded and Attendance Allowances are completely disregarded.

- (b) Maintenance Payments, whether voluntary or under Court Orders, are counted in full as weekly income.
- (c) Earnings – a proportion of any part-time earnings you may have will be counted. A scale setting out the proportion of earnings to be disregarded is included on the loose leaf in this booklet.
- (d) The first £2 of a pension from a previous employer is disregarded.
- (e) Savings – you will be entitled to a full Welfare Grant only if your savings or assets do not exceed a certain amount. That amount and the extent to which the grant may be gradually reduced where savings exceed this figure are shown on the loose leaf insertion included in this booklet.
- (f) Grants from charitable organisations are usually disregarded.

## 10. RESTRICTED GRANTS

Your Welfare Grant may be restricted below the amount assessed in the way described above if your income while you are unemployed or temporarily off work would otherwise be more than you would normally earn in your usual occupation.

## 11. IF YOU ARE UNEMPLOYED

Those confirmed as genuinely unemployed will receive the full welfare grant for a period of four weeks in any twelve months providing they register at least weekly at the Social Security Department Job Centre and, for these persons, no regard will be taken of whether or not they own the property in which they live. Where long term unemployment exists the rules set out in this booklet will generally apply with the level of benefit adjusted according to the individual's circumstances. You may not qualify for a Welfare Grant if you are unemployed for any of the following reasons:—

- (a) Left previous employment of own accord.
- (b) Dismissed from previous employment on the grounds of misconduct.
- (c) Failed to take up suitable employment that has been offered.

## 12. OTHER BENEFITS

Persons of limited means who satisfy certain conditions may be eligible to receive medical services of general practitioners and medicines, without charge, through the health scheme operated by the Social Security Department and where a need is not met by the health scheme the Parish may give help. These needs may include supplementary medical and pharmaceutical welfare grants to persons who are usually employed or in relation to items and services not included in the scheme such as spectacles, dentistry, chiropody. Persons of limited means can also receive free contraception through the Family Planning Clinic.

If you qualify for a Welfare Grant you may also receive help towards the cost of meals on wheels and home helps services where these are necessary.

Welfare Grants are set at a level to provide for normal requirements and supplementary payments may also be made, on application, towards meeting certain special needs such as a medically recommended diet. Fuel allowances of varying amounts, which are determined by reference to monthly mean temperatures, are also paid by the Parish to certain householders receiving regular welfare payments during the coldest months of the year.

## 13. APPEALS

One of the main advantages of the Welfare Grants system is the opportunity for the Parishes to have regard to personal circumstances and there may be occasions when individuals believe that they have not been fairly treated. Any person wishing to appeal against a decision of his or her Constable should, within a period of 8 weeks, personally, or with the aid of a States member, make a written appeal directly to the Greffier of the States, States Building, Royal Square who will convene an appeals body of three independent Constables.

## 14. FRAUD

Any person who knowingly makes a false statement or false representation for any purpose concerned with obtaining a welfare grant is liable to prosecution.

RESTRICTED

RESTRICTED  
DESKBY 300800Z  
FM WASHINGTON 292215Z SEP 82  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 3189 OF 29 SEPTEMBER

FOR NAD  
US WELFARE PROGRAMMES

1. FOLLOWING IS THE INFORMATION REQUESTED BY NO 10 DOWNING STREET ON THE WORKFARE PROGRAMME AND ON AID FOR FAMILIES WITH DEPENDENT CHILDREN (AFDC).

-(A) AFDC

THE AFDC PROGRAMME IS A MATCHING PROGRAMME FINANCED BY THE FEDERAL GOVERNMENT AND BY INDIVIDUAL STATES. THE FEDERAL CONTRIBUTION AMOUNTS TO 54 PERCENT OF THE TOTAL OUTLAY. AFDC PROVIDES ASSISTANCE TO FAMILIES WITH DEPENDENT CHILDREN, IE UP TO THE AGE OF 18, WHERE THE FAMILY INCOME IS BELOW 150 PERCENT OF THE STANDARD OF NEED, IE BASIC SUBSISTENCE LEVEL, AS DEFINED BY INDIVIDUAL STATES. IN ADDITION, TO QUALIFY FOR AFDC, A FAMILY HAS EITHER TO HAVE A CHILD WHICH IS BLIND OR DISABLED (MENTALLY OR PHYSICALLY); OR THE FAMILY MUST BE A ONE PARENT FAMILY OR THE FATHER UNEMPLOYED.

THE PROGRAMME COSTS 14 BILLION DOLLARS A YEAR, COVERING 3.6 MILLION FAMILY UNITS (10.4 MILLION INDIVIDUAL RECIPIENTS). THE FEDERAL SHARE OF OUTLAYS IN 1981 WAS 7.9 BILLION DOLLARS WITH TOTAL BENEFIT PAYMENTS AMOUNTING TO 12.8 BILLION DOLLARS AND WITH 1.2 BILLION DOLLARS BEING ABSORBED IN ADMINISTRATIVE AND TRAINING COSTS. THE MAXIMUM STATE CONTRIBUTION IS ABOUT 80 PERCENT BUT OUTLAYS VARY CONSIDERABLY FROM STATE TO STATE DEPENDING ON DIFFERENT WELFARE PRACTICES AND ON WHAT IS REGARDED AS THE BASIC STANDARD OF NEED EG IN CALIFORNIA AVERAGE MONTHLY PAYMENTS FOR A FAMILY OF FOUR UNDER AFDC WOULD BE 600 DOLLARS PER MONTH COMPARED WITH 140 DOLLARS A MONTH FOR A FAMILY OF FOUR IN TEXAS.

AFDC IS A CORNER-STONE PROGRAMME IN THE US WELFARE SYSTEM AND ELIGIBILITY FOR BENEFITS UNDER AFDC IS FREQUENTLY THE CRITERION FOR ELIGIBILITY FOR OTHER PROGRAMMES EG MEDICAID (FEDERAL MEDICAL INSURANCE) AND FOOD STAMPS. UNDER PRESIDENT REAGAN'S NEW FEDERALISM INITIATIVE ANNOUNCED EARLIER THIS YEAR, THE FEDERAL GOVERNMENT WOULD ASSUME THE FULL COSTS OF MEDICAID (ESTIMATED TO REACH 19.1 BILLION DOLLARS IN 1984) WHILE, IN THE SAME YEAR, INDIVIDUAL STATES WOULD ASSUME THE FULL COSTS OF AFDC AND FOOD STAMPS (AT A COST OF 16.5 BILLION DOLLARS). THE US GOVERNOR'S CONFERENCE (THE COLLECTIVE VOICE OF ALL 50 STATE GOVERNORS) HAVE NOT ACCEPTED THIS PROPOSAL AND DISCUSSION BETWEEN THE GOVERNORS AND THE ADMINISTRATION CONTINUES.

RESTRICTED

/ (B) WORKFARE

## RESTRICTED

### (B) WORKFARE PROGRAMME

FEDERAL SOCIAL SECURITY LAWS REQUIRE STATES TO REGISTER AFDC WELFARE APPLICANTS AND TO REQUIRE BENEFIT RECIPIENTS TO BE AVAILABLE FOR, AND TO SEARCH FOR, WORK. THE 1981 BUDGET RECONCILIATION ACT INCLUDES A PROVISION WHICH ENABLES STATES TO INTRODUCE WORKFARE SCHEMES UNDER THE COMMUNITY WORK EXPERIENCE PROGRAMME. UNDER THIS SCHEME, A STATE CAN REQUIRE AN AFDC WELFARE RECIPIENT TO WORK IN PUBLIC EMPLOYMENT IN EXCHANGE FOR THE WELFARE PAYMENTS. THE LEGISLATION REQUIRES THAT THE JOB UNDERTAKEN MUST OFFER WORK EXPERIENCE BUT MUST NOT DISPLACE AN EXISTING EMPLOYEE. THE JOB MUST ALSO BE ONE THAT COULD NOT BE FILLED BY ADVERTISING. LAST MONTH'S TAX EQUITY ACT ALLOWED STATES TO REQUIRE AFDC APPLICANTS TO SEARCH FOR WORK PRIOR TO RECEIVING WELFARE PAYMENTS.

THE LEGISLATION ALLOWS STATES TO STRUCTURE THE WORKFARE SCHEME AS THEY THINK FIT. ABOUT 15 STATES HAVE SO FAR INTRODUCED SOME FORM OF WORKFARE PROGRAMME BUT MOST ARE LIMITED TO A COUNTY OR AN EVEN SMALLER ~~AREA~~<sup>AREA</sup>. ONLY THREE STATES HAVE STATEWIDE SCHEMES. WEST VIRGINIA HAS A STATEWIDE SCHEME FOR UNEMPLOYED FATHERS, OKLAHOMA HAS A WORKFARE SCHEME FOR UNEMPLOYED MOTHERS AND IDAHO HAS A SCHEME WHICH CATERES FOR ANY UNEMPLOYED PARENT.

SOME STATES HAVE LONG REQUIRED RECIPIENTS OF STATE WELFARE FUNDS TO WORK, BUT THESE SCHEMES ARE DISTINCT FROM THE PRESENT WORKFARE PROGRAMME. NEW YORK, FOR EXAMPLE, HAS A LONG-STANDING PROGRAMME IN ELEVEN OF ITS COUNTIES. UTAH HAS A PROGRAMME WHICH INCLUDES A STRONG ELEMENT OF TRAINING. SOME STATES OPERATE A 'GRANT DIVERSION' SCHEME UNDER WHICH STATE WELFARE RECIPIENTS ARE GIVEN JOBS IN PRIVATE SECTOR COMPANIES - THE COMPANY RECEIVING THE WELFARE BENEFITS AND THE WORKER RECEIVING FROM THE EMPLOYER THE MINIMUM WAGE. UNDER RONALD REAGAN, CALIFORNIA HAD A WORK EXPERIENCE PROGRAMME WHICH REQUIRED BENEFIT RECIPIENTS TO WORK IN PUBLIC SECTOR JOBS.

REPORTS FROM THE THREE STATES WITH STATEWIDE WORKFARE PROGRAMMES SEEM TO INDICATE THAT THE PROGRAMMES ARE POPULAR, AT LEAST, WITH THE LEGISLATORS. THE PUBLIC SECTOR JOBS CREATED ARE SAID TO VARY IN TYPE BUT ARE MAINLY IN THE CLERICAL AND MAINTENANCE OCCUPATIONS. THE STATE OFFICIALS ADMINISTERING THE PROGRAMME ARGUE THAT THE JOBS DO PROVIDE THE NECESSARY WORK EXPERIENCE. THE SCOPE IS NONETHELESS LIMITED BY PUBLIC SECTOR UNION OPPOSITION TO THE

2  
RESTRICTED

/ PROGRAMMES

## RESTRICTED

PROGRAMMES AND SOME STATES HAVE FOUND THAT THERE ARE COSTS INVOLVED WHICH ARE NOT IMMEDIATELY APPARENT - FOR EXAMPLE IN SUPERVISING THE WELFARE WORKER. CRITICS ALSO CLAIM THAT THE JOBS ARE GENERALLY MENIAL AND DO NOT ALLOW THE WELFARE RECIPIENT TO GET OUT OF THE CIRCUMSTANCES WHICH LED TO THE NEED FOR WELFARE. A LARGE PROPORTION OF THE WELFARE RECIPIENTS ARE SINGLE PARENTS AND CRITICS OF THE SCHEME MAINTAIN THAT SERIOUS PROBLEMS ARISE IN ORGANISING CHILDCARE - MANY OF THE PARENTS BEING UNABLE TO AFFORD THE CHILDCARE FACILITIES. FINALLY, CRITICS ARGUE THAT WELFARE RECIPIENTS WOULD BENEFIT MOST FROM SOME FORM OF TRAINING TO EQUIP THEM WITH JOB SKILLS AND THAT THE WORKFARE SCHEME IS TOO NARROW IN SCOPE TO ALLOW THE NECESSARY PROVISIONS FOR TRAINING.

WRIGHT

COPIES SENT TO  
No. 10 DOWNING STREET

LIMITED  
NAD  
PS  
PS/PUS  
MR GIFFARD  
MR URE

CONFIDENTIAL

cc Mr. Walters O/R

MR. SCHOLAR

UNEMPLOYMENT POLICY

Further to your letters of 15 October 1982 to the relevant departments, you might judge it appropriate to send to departments further information on Workfare. I therefore attach some details of schemes in:

- a. JERSEY - where, I understand, the Workfare scheme is regarded as making a significant contribution to their low unemployment rate of 1½% last winter - as against a comparable mainland equivalent of Isle of Wight at over 14% unemployment. The Channel Island scheme has, incidentally, the approval of the T&GWU.
- b. USA - a note on Workfare prepared here for Mr. Walters, along with Washington telegram No. 3189 which was provided at our request.

If you agree you might find the attached draft letter useful.

AS

16 November 1982

ADRIAN SMITH

CONFIDENTIAL



CONFIDENTIAL

DRAFT LETTER FOR MR. SCHOLAR TO SEND TO:

SECRETARY OF STATE FOR SOCIAL SERVICES  
PS/EMPLOYMENT SECRETARY, ETC.

*cc PS/CH/Ex*

UNEMPLOYMENT POLICY

*(work to you on)*  
Further to my letter of 15 October 1982, *which we have here* you might find it useful to have to hand some details of Workfare Schemes in Jersey and USA *which we have to hand here*. I therefore enclose:

*About the government's policies for dealing with unemployment in his connection*

- a. papers relating to the Jersey scheme;
- b. a note prepared here on Workfare and Washington telegram number 3189.

16 November 1982

CONFIDENTIAL

Prime Minister 2



MANPOWER

WA

10/11

Caxton House Tothill Street London SW1H 9NXF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

John Kerr Esq  
Private Secretary to the  
Chancellor of the  
Exchequer  
Treasury  
Great George Street  
LONDON SW1



10 November 1982

Dear John

inside  
of file  
cover

HOUSE OF LORDS SELECT COMMITTEE REPORT ON UNEMPLOYMENT - GOVERNMENT REPLY

I attach a copy of the final version of the reply incorporating changes agreed by the Chancellor and my Secretary of State, taking account of comments received from colleagues.

We expect the reply to be published on Friday 12 November. We are arranging for advance copies to be sent on a personal and confidential basis to Lady Seear and the other members of the Committee, and to others who have put their names down to speak in the debate on 16 November.

I am copying this to the Private Secretaries, to the Prime Minister, the Home Secretary, the Secretaries of State for Education, Northern Ireland, Scotland, Wales, Environment, Industry, Social Services, Trade, the Lord Privy Seal and Lord Gowrie.

Yours sincerely

Barnaby Shaw

J B SHAW  
Principal Private Secretary

PRIME MINISTERYouth Service

H Committee considered Sir Keith Joseph's paper on legislation on the youth service at its meeting on Monday; you will recall that you agreed with Mr. Mount's criticisms of the proposal to give local authorities more statutory duties. H agreed as well (minutes attached). Although some members thought that there should be declaratory legislation to put the legal position of the youth service beyond doubt, most of the Committee however thought that it would not be right to support a Bill which extended local authorities' statutory duties. They stressed that the Government had a good record on youth training and sporting facilities and had therefore no need to be defensive. It was agreed that legislation would not be prepared.

Green mt

DT.

4 November 1982

CONFIDENTIAL

*Mampound, 25/11*



*Prime Minister* (2)

*Mes 1/11*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 6169

MO 24

1st November 1982

*mt*

*Dear Norman.*

*+PM (with mes?)*

Thank you for your letter of 14th October. I have set in hand a study of the extent to which the Armed Forces can make a contribution to the Youth Training Scheme, and our officials have already met for a preliminary discussion. It is the intention they should meet again shortly when we have assessed the possibilities in greater detail here.

One or two points have already been identified as needing further consideration. As you mention in your letter the MOD ran a highly successful Adventure Training Scheme this year. The extent to which this can be repeated, if we are to run a YTS intake as well, is doubtful. Again, as regards costs, the early assessments show that the costs to the MOD budget are likely to be greater than the YTS subvention. We can no doubt return to this when the details are firmer.

As regards the contribution of MOD establishments to the employment of YOP, there is no reason to believe they will not be able to do at least as much for YTS, so long as there is acceptance of a part for MOD establishments to play in YTS role.

The Rt Hon Norman Tebbit MP

CONFIDENTIAL

CONFIDENTIAL



I have noted the support that the Prime Minister is giving to the proposition as regards the Armed Forces. When officials have taken the matter forward I will write to you again.

I am sending a copy of this letter to the Prime Minister.

*Yours ever*  
*John*

John Nott

CONFIDENTIAL



Jo vs  
bc Ferdie Mount

10 DOWNING STREET

From the Private Secretary

1 November 1982

Dear Colin

The Youth Service

The Prime Minister has seen Sir Keith Joseph's paper on "Legislation on the Youth Service" (H(82)46). She has commented that she would be opposed to any legislation which places new, or further, duties on local education authorities. She agrees with the points made in the fourth and fifth paragraphs of Mr. Mount's letter to the Home Secretary of 29 October: that many local education authorities fail to provide adequate education services, and that such failures should not be rewarded with extra responsibility; and that giving local education authorities further responsibilities for the youth service is likely to reduce the voluntary contribution in that field.

I am copying this letter to the Private Secretaries to the members of H Committee and to Richard Hatfield (Cabinet Office).

Yours ever

Willie Rickett

Colin Walters, Esq.,  
Home Office.

CONFIDENTIAL

♀  
vs

CONFIDENTIAL

MR SCHOLAR



10 DOWNING STREET

29 October 1982

The Rt Hon William Whitelaw CH MC MP  
Secretary of State  
Home Department  
50 Queen Anne's Gate  
LONDON SW1

Dear Willie,

LEGISLATION ON THE YOUTH SERVICE

Keith Joseph's memorandum makes rather disturbing reading and at first sight seems to be in conflict with the general direction of Conservative education policy.

It is quite true that the present legal position of the youth service is not entirely clear cut. But the reason for this is understandable. The framers of the 1944 Act were, rightly in their own terms, anxious that the local authority should not be inhibited from providing the fullest possible education service. Thus, it had to be empowered to provide not only playing fields and swimming pools, but also facilities for further education and all the activities now covered by the youth service. Those activities formed part of the penumbra of the local education authority - within its powers, yet not at the core of its duties.

✓ To lay on the local authority an entirely new duty to ensure a comprehensive youth service would be to take a radical step beyond that. Is this what we really want?

✓ After all, one of our greatest worries at present is whether many local education authorities provide adequate education services. Do we wish to "reward" the failures with extra responsibilities?

✓ It is the usual experience that giving local authorities responsibility for any function gradually reduces the voluntary contribution in that field. It is estimated that 90% of the funds now going into the youth service are privately raised. How long would that happy state of affairs continue after legislation?

Inexorably, the number of paid staff - and the cost to public funds - tends to rise. Again, this is surely contrary to our general purposes. The present paper contends that such legislation would be cost-free at the moment. But if the long-term effect of any such legislation were not to add to public expenditure, then it would be virtually pointless. Again, bitter experience teaches us that complaints of "confusion and lack of co-ordination" usually turn out to be euphemisms for "more money, please".

Moreover, those paid staff tend, as often as not, to be less than sympathetic to our viewpoint. Would one be happy to leave "social

CONFIDENTIAL

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and political education" in Inner London or South Yorkshire to the employees of the local education authority?

One of the major difficulties facing any Secretary of State for Education is his lack of power vis-a-vis the local education authority. Can it be in the interests of education in the highest sense further to increase that imbalance of power?

If there is a case for tidying up the legislative position, then surely the more appropriate body to deal with youth services would be the national training body, namely the Manpower Services Commission.

This Government may, indeed, be able to guarantee that no extra expenditure would be necessary as a result of such legislation, but no government can bind its successor.

I am copying this letter to the Prime Minister and other members of H Committee, and to Sir Robert Armstrong.

*Your ever  
sincerely*

FERDINAND MOUNT

CONFIDENTIAL



The Youth Service

The last thing?  
LEAs want in  
more dukes  
not

The attached H paper by Sir Keith Joseph makes proposals following the recent report of the Review Group on the Youth Service. The Group proposed legislation to:

- i) require education authorities to assess the need for and ensure the availability of (but not necessarily provide themselves) a youth service in their area for all young people aged 11-20;
- ii) empower them to make provision for people outside this age range;
- iii) empower them to provide resources for these purposes.

*[Handwritten squiggly mark]*

Sir Keith's conclusion is that these proposals are sufficient to put the youth service on a proper legal basis (which has hitherto been lacking) without imposing additional public expenditure burdens on local authorities.

He proposes therefore that the Government should support any backbencher in introducing legislation on these lines. Sir Keith recognises the risk that such legislation would increase pressure on LEAs to make more extensive provision and proposes that any legislation should contain measures to guard against this. The risk of not proceeding is that backbenchers will introduce more prescriptive legislation with direct expenditure implications which, on past experience, would be difficult to resist in Parliament.

*TS*

TIM FLESHER  
28 October, 1982

Also attached is a letter from Ferdie Mount on Sir Keith's proposals. He makes a number of telling points but I am not sure that his proposal that the MSC should take over the youth service is a practical proposition.

*JF 29/10.*

4/3V 2



*Mr. Tebbit*

PRIVY COUNCIL OFFICE  
WHITEHALL LONDON SW1A 2AI

26 October 1982

Prime Minister

Dear Norman.

*MS*

*Wm  
24/10*

SELECT COMMITTEE ON EMPLOYMENT: MACHINERY OF GOVERNMENT

Thank you for your letter of 14 October letting me know the line you intend to take if the Select Committee on Employment ask you to give evidence to them about the arrangements for inter-Departmental consultation on issues potentially affecting employment.

As you know, our general policy in dealing with requests from the Departmental select committees for specific information on sensitive matters has been to offer generalised information and avoid flat refusals as far as possible, whilst remaining firm in refusing to disclose information which could affect a small number of areas of particular importance. In this way we have generally managed to avoid direct confrontations.

As I see it, the two potential areas of information at risk here are the organisation of inter-Ministerial committees, and especially Cabinet committees (other than those whose existence has already been disclosed), and any information which could be used by select committees to try and play one Minister or Department against another and to seek to undermine the general principle of collective Ministerial responsibility for Government decisions at whatever level.

I, therefore, entirely share your view that, if questioned on the extent to which you or your Department have been consulted on matters which have employment implications, it would be desirable to rely as far as possible on the generalities that you are satisfied that the necessary arrangements for the co-ordination of Departmental views on matters affecting employment are adequate; that the level of consultation varies with the issues involved; and that you are also satisfied that, as necessary, you are consulted personally. As you point out, there are opportunities, both for Ministers and officials, to make complaints if they do not consider they have been properly consulted on particular issues.

.../...

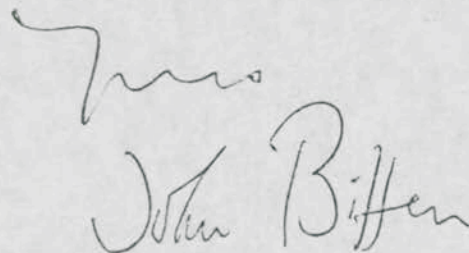
The Rt Hon Norman Tebbit MP  
Secretary of State for Employment  
Caxton House  
Tothill Street  
London SW1H 9NF

As you recognise, the real difficulties are likely to start if the Committee are not satisfied with these generalities and pursue specific issues, such as whether a particular Minister was consulted on a particular matter; at what level official Departmental consultation took place; or whether there are standing inter-Departmental arrangements to consider particular matters.

It is obviously difficult to be precise about these hearings, since so much is bound to depend on the atmosphere of the Committee on the day, and how far a willing tone, without specific replies, is likely to be acceptable. But, like you, I am inclined to the view that, if questions of the kind indicated above are pressed, one could only repeat the general position as you have suggested. On the other hand, I can see little harm in referring to specific standing arrangements for inter-Departmental consultation on particular topics as examples of inter-Departmental consultation in matters affecting employment, provided that the disclosure of these arrangements does not, for example, imply the existence of Cabinet committees or reveal sensitive policy issues currently under consideration.

I very much doubt whether an approach to Edward du Cann would serve any useful purpose at this point. The Liaison Committee has no direct control over the Employment Committee, and in any case I doubt whether any approach at this stage could be sufficiently specific until we know definitely the information on which the Employment Committee set particular store. But I would be very ready to consider an approach to Edward du Cann later, if it proved impossible to satisfy the Committee on the lines suggested above.

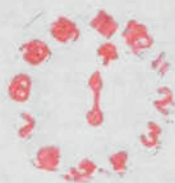
I am copying this to ~~No~~ 10 and Sir Robert Armstrong.



JOHN BIFFEN

Manpower  
Special Employment

28 OCT 1982



Handwritten

SIR TERENCE BECKETT (CBI) - We Need More Growth Before We Can Cut Unemployment.

Transcript from BBC Radio 4, The World At 1. 26 October 1982.

INTERVIEWER: ALAN TRISTRAM.

PRESENTER: ROBIN DAY. .. ... Well as you've heard in the news, the number of people out of work this month has fallen by nearly 50,000 to just over 3,295,000. But, although the number of unemployed school-leavers is down, the underlying unemployment trend is still upwards with more and more people joining the long-term unemployed. Alan Tristram asked the Director General of the CBI, Sir Terence Beckett, for his reaction to today's figures.

BECKETT: We won't be cutting unemployment substantially, of course, until we can get some growth back into the economy.

TRISTRAM: Well, how are we going to get some growth back into the economy?

BECKETT: Well, we've got a conference next week on this - the CBI Conference - where we're devoting, in fact, a third of the whole of the conference to the subject of unemployment. We're going through the reasons, the ways in which we can get a more dynamic economy and then, secondly, we shall be talking, of course, about some of the specific measures that we can adopt to get unemployment down in the meantime.

TRISTRAM: Now you will be putting forward a plan at this conference, I understand. What are some of the key ideas in this plan?

BECKETT: Oh, I think I've got to ask you to wait for the conference on that. I don't want to anticipate all the debate. Our members have got some very good ideas - and, by the way, there's no magic wand in this; if there was then we'd have come up with a long time ago - but there are some measures that we can adopt and then, secondly, we must get a more dynamic economy going.

TRISTRAM: Will you though, for instance, be calling for more Government spending?

BECKETT: No, basically there's very little of that; it is really a rearrangement of what we're currently doing but, fundamentally, we really do have to get the economy moving - this is the big thing - and we think we can get it moving in this next year, by the way.

TRISTRAM: Well some politicians have claimed that keeping wage costs down would, of itself, solve this problem and increase employment. That's not so, is it?

BECKETT: Oh yes it is, actually. We want, we ought to be pricing people back into jobs, there's no doubt about it. One of the things that we've done in these last few years is, by letting wages go up so much, we've made ourselves uncompetitive in the world and we're 35% uncompetitive, now, against the rest of OECD and we really do have to get this uncompetitiveness out of our system.

TRISTRAM: But, I mean, a lot of our wages are lower than on the Continent, for instance?

BECKETT: Yes, and so is our productivity, of course.

TRISTRAM: But that, of itself, just keeping wages down, won't increase employment enough to counteract the 3 million plus unemployed, will it?

BECKETT: The great secret of getting our unemployment down is to make the British economy more competitive than it is - and let me tell you it's woefully uncompetitive at the present time - that is the single most important solution to the whole problem.

TRISTRAM: Don't you think, though, that the actual problem of unemployment - those millions of people out of work - is, of itself, more important than industry. That, in other words, the Government should now spend to get those people back to work?

BECKETT: Well it isn't a contrast between the two. What we've got to have, in this country, is an understanding of what industry

needs to become more competitive so that it can provide the jobs and the prosperity for all of us in the future.

TRISTRAM: No, the point I'm making is that shouldn't, really, the Government be spending to put people back into jobs .....

BECKETT: No, it most certainly shouldn't. If we simply add money to this situation, all we shall get is a lot more inflation and this is precisely what Governments have been doing for the last 20 years and the result is the mess we are in today. That isn't the way at all. We've got to get ourselves more efficient; we've got to get ourselves more competitive; this will give us a larger share of the world market and, in this way, we shall provide the jobs and the prosperity everybody wants.

DAY: Sir Terence Beckett of the CBI.

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cc secret  
tree mount

HU  
Mansford

10 DOWNING STREET

*From the Private Secretary*

22 October 1982

Follow-up to the Employment Studies

The Prime Minister has asked me to suggest that your Secretary of State, in the follow-up work which he will be bringing forward after last week's discussion of unemployment, should include an examination of the proposal for a refundable second-tier to child benefit, which would smooth out the "benefit gap" between unemployed parents and employed parents and would be more cost effective than a comparable increase in flat rate benefit. This is, I understand, a scheme currently in effect in Canada, and is mentioned in the CPRS study on unemployment.

I am sending a copy of this letter to John Kerr (H.M. Treasury).

M. C. SCHOLAR

David Clark, Esq.,  
Department of Health and Social Security.

SECRET

HU



Prime Minister ①

You were attracted to this Canadian idea

MR. SCHOLAR

but did not discuss at last Thursday's unemployment meeting - so DHSS are not pursuing. Shall I ask

To solve the "employment trap", reforms in the tax-benefit system are necessary to ensure that unemployed parents are not penalised if they find jobs.

to consider them

One suggestion that we put earlier to the Prime Minister was something on the lines of the Canadian system of a refundable second tier to child benefit which would smooth out the "benefit gap" between unemployed parents and employed parents and would be far more cost-effective than a comparable increase in flat-rate benefit.

report to you?

yes?

MCS

21/10

Since the DHSS is investigating the possibilities of improving the Family Income Supplement system, I think it would be helpful if a more radical approach of this sort was also carefully considered, particularly in view of the fact that the SDP is publishing shortly a major reform of the system of child support.

Would it be possible for the Prime Minister to suggest that the DHSS might include this kind of scheme in its immediate programme of work?

fm

Yes please  
no

21 October 1982

FERDINAND MOUNT

CONFIDENTIAL



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GC JV

10 DOWNING STREET

*From the Private Secretary*

MR. SPARROW

The Prime Minister has now considered Mr. Bailey's minute to me of 21 September, and the check-list attached thereto.

The Prime Minister has asked me to thank you and the other members of the CPRS concerned for all the work that went into this report. A number of discussions have, as you know, taken place about the conclusions of the report; and follow-up work has now been commissioned in the Departments concerned.

M. C. SCHOLAR

18 October, 1982

CONFIDENTIAL

SUBJECT



cc DOI  
cc Master 6  
JL

10 DOWNING STREET

From the Private Secretary

18 October 1982

SECRET AND PERSONAL

In the Prime Minister's discussion last Thursday evening with the Home Secretary, the Chancellor of the Exchequer and other Ministers, she referred to the Review which, during the discussion of the CPRS report on unemployment on 13 September, she had asked the Minister of State, Treasury (Mr. Wakeman), in consultation with the Parliamentary Under Secretary of State, Department of Industry (Mr. MacGregor), to carry out. This review was principally aimed at reviewing the rules governing the business start-up scheme to eliminate unnecessary restrictions, in particular those caused by the tax regime. During the meeting on Thursday the Prime Minister indicated that she would also wish the other measures listed under F, in the CPRS checklist attached to Mr. Bailey's minute to me of 21 September, to be given consideration by the Chancellor.

The Prime Minister would be grateful if the Chancellor would bring forward the results of Mr. Wakeham's review in parallel with the other work commissioned at Thursday's meeting - that is as soon as the Chancellor judges desirable, but in any event by end November.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry). I would be grateful if you and he could show this letter (together with the papers referred to in it) only to those specifically authorised by your Ministers to see them.

M. C. SCHOLAR

John Kerr, Esq.,  
HM Treasury.

JK

SUBJECT

S  
cc Mastercc DHSS  
Tnd  
HMT

## 10 DOWNING STREET

From the Private Secretary

15 October 1982

Dear Barnaby,

Unemployment

The Prime Minister held a discussion yesterday afternoon, on the papers attached to my letter to John Halliday of 30 September, with the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and Health and Social Services, and your Secretary of State.

The Prime Minister asked your Secretary of State, in consultation with Mr. Fowler, to take forward the proposal for some kind of 'workfare' scheme - perhaps on the lines set out at (a)(iii) in the CPRS check-list attached to Mr. Bailey's minute to me of 21 September, to collect a larger pool of vacancies and other community work, so as to move to a system where unemployed people would be obliged to make some contribution to the community as a condition for receiving their benefits.

The Prime Minister also asked your Secretary of State, in consultation with the Secretary of State for Industry, to consider the proposal at (c)(i); and, in consultation with Mr. Fowler, that at c(iii) (particularly for those, e.g. occupational pensioners who are on the unemployment register in order to get their national insurance contributions paid). Action on (c)(ii) and (c)(iv) should be postponed for the time being; it was hoped that action under (c)(v) and d(ii) would be taking place in any event. No further action was commissioned on (d)(i), and (iii); but the Prime Minister asked your Secretary of State, in consultation with the Secretary of State for Industry, to carry forward the proposals in (e)(i) (but not in (e)(ii)).

The Prime Minister also asked your Secretary of State to consider whether to bring forward proposals for the extension of the short term temporary working scheme.

The Prime Minister asks that your Secretary of State consults the Chancellor of the Exchequer as necessary in these matters; and that he reports progress to her as soon as he judges desirable, but in any event by end-November.

/I am

SECRET AND PERSONAL

By

-2-

I am sending copies of this letter to Jonathan Spencer in Mr Jenkin's Office, to David Clark in Mr. Fowler's office and to John Kerr in the Chancellor's office. I should be grateful if you and they would show this letter (together with the papers referred to in the letter) only to those specifically authorised by your Ministers to see them.

*Yours sincerely,*

*Michael Scholer*

---

J.B. Shaw, Esq.,  
Department of Employment.

SUBJECT

FIS JR  
4  
Emp  
AMT



10 DOWNING STREET

From the Private Secretary

15 October 1982

Dear Secretary of State,

I am writing to you personally, as you asked me to do, to record the outcome of the discussion the Prime Minister held yesterday afternoon with the Home Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry and Employment and yourself.

The conclusions of the meeting centred upon the check-list attached to the CPRS minute to me of 21 September. The Prime Minister asked you, in consultation with Mr. Tebbit as necessary, to consider the proposals listed at (a)(i), (ii) and (v) and c(iii). The proposal at (a)(iv), to limit benefit entitlement to some percentage of previous income in work was not to be pursued further. She also asked you to consider the proposals at (b)(i) and (ii) (but not b(iii)), including the suggestion raised in the discussion that FIS might be renamed to make its purpose clearer, in the hope of ensuring greater take-up.

The Prime Minister asks that you consult the Chancellor of the Exchequer as necessary on these matters; and that you report progress to her as soon as you judge desirable - if possible, in time for remaining relevant decisions on the forthcoming upratings and in any event by end-November.

I am sending copies of this letter to Barnaby Shaw in Mr. Tebbit's office and to John Kerr in the Chancellor's office. I would be grateful if they would show this letter (together with the papers referred to in the letter) only to those specifically authorised by their Ministers to see them.

Yours sincerely,

Michael Scholar

The Right Honourable Norman Fowler, M.P.

B/R



MANPOWER

26  
extra letter

10 DOWNING STREET

*From the Private Secretary*

15 October 1982

The Youth Training Scheme and the Armed Forces

The Prime Minister has seen a copy of the Secretary of State for Employment's letter of 14 October to your Secretary of State, in which he asked your Secretary of State to consider urgently whether he will be able to set up a scheme for the Armed Forces on the lines of the Youth Training Scheme.

The Prime Minister has asked me to write to say that she strongly supports this approach, and very much hopes that a worthwhile scheme can be devised.

I am sending a copy of this letter to Barnaby Shaw (Department of Employment).

M. C. SCHOLLEY

Richard Mottram Esq  
Ministry of Defence.

CONFIDENTIAL

15



Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400.....

Switchboard 01-213 3000

The Rt Hon John Nott MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
LONDON SW1A 0AA

14 October 1982

*D. John.*

#### THE YOUTH TRAINING SCHEME AND THE ARMED FORCES

The Ministry of Defence is already making a significant contribution to the success of the Youth Opportunities Programme (YOP) by providing places for young people in civilian establishments. Last year we also investigated the possibility of setting up YOP schemes with the armed forces, but the proposal foundered largely on grounds of cost. Since then, however, you have set up the Youth Adventure Scheme which is giving two or three weeks of "Outward Bound" type activities to 5,000 16 to 18 year olds this summer. I understand that the scheme has been a considerable success.

The Youth Opportunities Programme will be replaced next year by our new Youth Training Scheme (YTS), which will provide a full year's foundation training to all unemployed 16 and 17 year old school leavers, as well as to many 16 year olds in employment. Altogether we are planning to involve 460,000 young people in the new scheme, which will be a radical new step in bridging the gap between the worlds of school and work.

I very much hope that Ministry of Defence civilian establishments will make at least as great a contribution to the new scheme as they have done to YOP.

In addition I should like to examine urgently whether we can together set up a similar type of scheme for the Armed Forces. This could give young people 12 months in the Armed Forces with training of the kind which will be offered by the Youth Training Scheme. I am looking for a scheme within the cost limits of the YTS, which will provide a block





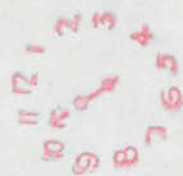
grant of £1,850 per trainee (or £1,950 if the sponsor organises a full 12 months of training and work experience). It seems to me that as the trainees concerned would be housed and fed by the Services the normal allowance of £25 per week should be considerably reduced.

I very much hope that you will agree with this approach. I suggest that our officials should consider the matter and report back quickly. The YTS will be launched in September 1983 but there is no reason why the scheme I am proposing should not start earlier if this is possible.

I am copying this letter to the Prime Minister, with whom I have discussed this matter.

*J. Norman*

28 MAR 1983





Caxton House Tothill Street London SW1H 9N&F

Telephone Direct Line 01-213 6400  
Switchboard 01-213 3000

The Rt Hon John Biffen MP  
Privy Council Office  
Whitehall  
LONDON  
SW1

14 October 1982

Q John.

SELECT COMMITTEE ON EMPLOYMENT: MACHINERY OF GOVERNMENT

When officials of my Department gave oral evidence to the Select Committee on Employment on 14 July in pursuance of the Committee's enquiry into employment creation, they were closely questioned as to the machinery which existed for ensuring that employment effects were given due consideration in the formulation of government policies which might have a bearing on this.

In accordance with the Notes for the Guidance of Officials (which are, of course, available in the Library of the House) and briefing they had received from the MPO in advance, my officials took the line that consultation took place in a variety of ways and that the ministers concerned were in general satisfied that it was adequate but that they could not, without specific ministerial authority, disclose details either generally or in relation to particular decisions.

John Golding found this unsatisfactory - naturally enough - as it goes to the heart of the enquiry he is trying to undertake, and indicated that he would be summoning me personally to give evidence in due course. I expect to receive a summons shortly and am therefore writing to clear with you in advance the line I propose to take since the matter is clearly of wider significance.

I would propose to say that I share the implied view of the Committee that this Department should be consulted by other Departments on any matter which has significant employment implications and, as the responsible Minister, I am satisfied that in general this happens; like any Cabinet Minister I can raise with my colleagues - in Cabinet if necessary - any matter in which I might feel there had been insufficient consultation,



or that employment considerations were being given insufficient weight. I would however decline, on grounds of collective ministerial responsibility, to comment on the extent or level at which my Department had been consulted on any particular issue.

I am less clear as to how far I should go in describing, in general terms, such standing machinery as exists for ensuring that these consultations take place. It is, as I understand it, not our policy to disclose the existence of any ministerial committee other than those which have already been publicly identified by the Prime Minister (including the Economic Strategy Committee) and that this embargo extends to Official Cabinet Committees. I understand that MPO take the view that there would be no harm in revealing the existence of standing committees which were not Official Cabinet Committees - such as the inter-departmental Manpower Group which meets under the chairmanship of a DE official and includes representatives of the MSC. However this seems to me to be a difficult line to hold and my inclination is that I should either refuse to discuss any standing machinery or be free to indicate the existence of particular machinery to deal with particular types of problems without distinction as to whether or not it has the status of any Official Cabinet Committee.

There are clearly sensitive issues involved here, going well beyond the remit of the Employment Committee. It may be that you would want to have a word with Edward Du Cann to see how far he is prepared to support John Golding along this line.

I am copying this letter to No 10 and to Sir Robert Armstrong.

*J. Norman*

Manpower: Special Enpt. Measures  
At. 8

17 001 1502



Home Secretary  
Chancellor  
S/S Industry  
S/S Employment  
S/S Health and SS

PRIME MINISTER

Unemployment/Minford/Smith

The papers before the meeting are the extracts from the CPRS and Minford reports attached to my letter at Flag A.

Minford/Smith proposes:

- (1) a cap of unemployment etc. benefits
- (2) workfare
- (3) raising tax thresholds by 40% and child benefits by £2.15 per child
- (4)  abolition of means-tested benefits-in-kind and their replacement by a more generous FIS
- (5) end of the closed shop and restoration of common law to all union actions
- (6) establishment of a Labour Monopolies Commission
- (7) abolition of Wages Councils, decontrol of rents and introduction of regional employment subsidy.

On the cap Norman Tebbit argued against it and Alan Walters and Ferdie Mount accept that this proposal should be dropped until after the election. I think that it would be very dangerous to decide tomorrow either to postpone until after the election or, without commitment, to consider the idea further; this will lead to a CPRS Report situation, in which the decision will leak and you will get all the criticism without the benefit of going ahead with the idea. I suggest you either decide to go ahead; or that I am told to write a letter killing the idea (and what is in your mind for after the election is in your mind).

/ On workfare

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On workfare see Ferdie's comments at Flag B. Is this not the way forward?

do.

lf

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On tax thresholds, you are already acting, with the Chancellor.

On abolition of means-tested benefits-in-kind and FIS should not Mr. Fowler be asked to work up a set of proposals taking account of Ferdie's second-tier CB point (Flag C) and the CPRS proposals (Flag D).

On the closed shop, union law, and Labour Monopolies Commission, do not the same considerations apply as for the unemployment benefit cap and shouldn't you take the same decision?

This will probably be enough for tomorrow's meeting. But there is still the CPRS checklist, with its points on employment measures, flexible wages etc. (Flag E) to cover. A separate and slightly larger meeting, later, on these, with John Sparrow?

Will you wish also to mention tomorrow your ideas about military training for young unemployed?

MUS

13 October 1982

SECRET

Prime Minister

PRIME MINISTER

Ms 13/10

UNEMPLOYMENT, MINFORD'S REPORT AND THE CHANCELLOR'S MEMORANDUM

As the Chancellor suggested, I have met Terry Burns, Michael Quinlan and other Treasury officials to settle the difference between the costs in the Minford Report and that estimated by the Treasury. Fortunately it has been easy to resolve. The Treasury misinterpreted Minford to mean that he was increasing thresholds by 40% in real terms. My understanding, and what Minford was in fact doing, was that the ~~40%~~ was in nominal terms. There is virtually no difference between the Minford and Treasury estimates of the threshold effect. Similarly, there is no significant difference between the Treasury and Minford estimates of the cost of raising child benefits.

There is still considerable difference between Minford's estimate of the costs (or benefits) of the benefits ceiling and the estimates of the Treasury. But there is an inherent uncertainty here and the Treasury admit that they can find no powerful argument for saying Minford is wrong, or indeed that theirs is right. The uncertainty remains.

There will still be considerable differences, however, in the estimates of the secondary effects, both on the costs and the benefits side. But again, in such estimates there are enormous areas of inherent uncertainty. The estimates depend on human behaviour which is neither well documented nor efficiently measured. All of us would agree on what would happen in general terms, but there will be considerable dissent on numerical results.

I think it is best to accept that there is inherent and irresolvable uncertainty in the measuring of the secondary effects of the proposed measures. It is best to judge the measures on, first their direct cost, secondly the general direction of the economic effect, thirdly their political acceptability, and lastly, above all, whether they are morally right.

13 October 1982

SECRET

AW

ALAN WALTERS





CONFIDENTIAL

P.0868

PRIME MINISTER

Young Workers' Scheme

(E(82)68

BACKGROUND

You announced in July 1981 the establishment of the Young Workers' Scheme (YWS), which provides grants to employers, other than domestic households, employing school leavers in their first year of employment at less than a prescribed level of wages. At present, employers paying less than £40 a week receive £15 a week for each employee; employers paying less than £45 a week receive £7.50. The scheme was introduced with effect from 4 January 1982. It had to be cleared beforehand with the European Commission, who expressed some misgivings about it and gave approval for only one year: the Commission are understood to have regarded the scheme as an employment subsidy rather than as a means of putting downward pressure on wages, and to have been concerned at the absence of any training provision.

2. In his letter of 21<sup>st</sup> September to the Chancellor of the Exchequer, the Secretary of State for Employment proposed a number of changes to the scheme, summarised in E(82)68, to take effect from the first anniversary of the scheme:

- a. an increase in the earnings limits to £42 and £47;
- b. extension of the scheme to employment in domestic households;
- c. a definition of the scheme's relationship to the new Youth Training Scheme;
- d. a requirement for training to be provided, if necessary, to secure approval from the European Commission.

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3. Your Private Secretary's letter of 30 September said that you thought it would be unwise to increase the earnings limits, since this would give rise to expectations that they would be raised every year.

#### MAIN ISSUES

##### Earnings limit

4. As you have commented, there is a risk that increasing the limits will create expectations of an annual increase. The main counter-argument is that, if the limits are not raised, it will be more difficult for the YWS to achieve its objectives. It is of course a major objective of the YWS to bring down wage levels for young workers. To be effective for this purpose there has to be a workable incentive for employers to keep wages within the limits. If the limits are so tight that they cannot be made to stick, the YWS will have less influence on wage levels. It is also an objective of the YWS to create new jobs with the benefit of the subsidy. For this purpose also the limits need to be pitched at a realistic level. The Secretary of State for Employment argues that if the limits are not increased the number of applications will fall from 100,000 to 80,000 in 1983-84.

5. The problem arises in large measure from the existence of the Wages Councils. This was recognised from the outset as a constraint in fixing earnings limits under the YWS. The Secretary of State for Employment argues that a modest increase in the YWS limits may in practice help to keep the next round of Wages Councils awards lower than they would otherwise be. If no increases are made in the limits, the Wages Councils, who are likely to feel obliged to make some increases in their awards, will not have the incentive to pitch their increases at a level which would not deprive employers of eligibility under the YWS. Some members of the Committee may feel that the difficulty which the Wages Councils create for the YWS underlines again the need to contemplate the abolition of the Councils in whole or in part which the Committee last discussed on 14 July, (E(82)18th Meeting, Item 2). The recent study on Unemployment by the CPRS

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argued in favour of the total abolition of Wages Councils in 1985, the earliest date permitted by our international obligations. The Committee will need to resume its discussion of Wages Councils soon. Whatever the outcome of that discussion, the need to take account of the existence of the Councils in settling the YWS earning limits for 1983-84 will nevertheless remain.

6. It may be argued that, although an increase in the earnings limit is inevitable, it need not be as great as that proposed. The suggested increase from £40 to £42 is 5 per cent and that from £45 to £47 is some 4.4 per cent. If the Government were to bring the increases more in line with its general view of the desirable level of wage increases, somewhat lower figures would be required. An increase of 3½ per cent, in line with the public service pay factor for 1983-84, would, for example, produce figures of £41.40 and £46.55 or £46.60. If however the Committee is inclined to take a realistic view of the constraints imposed on employers and the likely behaviour of Wages Councils and wants to ensure the continued effectiveness of the YWS, the right course would be to accept Mr Tebbit's proposed figures.

#### Domestic households

7. When the YWS was introduced, Ministers took the view that domestic households should not be covered because they were concerned at the prospect of adverse publicity centering on, for example, wealthy individuals being subsidised to employ 'au pairs'. It is relevant that nationals of other EEC countries must be covered by the scheme; the numbers actually covered would naturally be greatly increased if 'au pairs' were included.

8. Extension to employment in domestic households would also add to the scheme's "deadweight" (ie coverage of people who would have acted in the same way even if the scheme did not exist). This is already high as the Secretary of State for Employment concedes in his letter of 21 September.

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9. We understand that the Treasury have misgivings about the proposals for both of these reasons. On the other hand the CPRS argued in their report on Unemployment for various incentives to private households to offer work to the unemployed, including extension of the YWS.

#### Youth Training Scheme

10. The Youth Training Scheme (YTS) is to replace the Youth Opportunities Programme (YOP) from September 1983. It would be natural to adopt the same rule for the YTS as for the YOP, that time on the scheme should not count as employment for the purposes of the YWS (which is available only for those in their first year of employment) and that the YWS should be available for 16 year olds alongside the YTS. The Manpower Services Commission has argued against this, presumably in order to get as many young people as possible into the YTS. The Government's concept of the YTS is however that it should be an alternative - and not an especially preferred alternative - to employment for school leavers, rather than a replacement for it.

#### European Commission

11. If the European Commission insist on provision of training as a condition for renewed approval of the YWS there would seem to be no difficulty in imposing a condition of the kind the Secretary of State for Employment has in mind since it appears that 90 per cent of those covered by the YWS receive some training. It is not clear whether the Secretary of State would be willing to go further if the Commission insisted on something more than a broad and almost certainly unenforceable undertaking of this kind.

#### HANDLING

12. You will wish to ask the Secretary of State for Employment to introduce his memorandum. The other most likely contributors are the Secretary of State for Education and Science (on training aspects); either the Chancellor of the Exchequer or the Chief Secretary, Treasury on implications for the labour market and public expenditure; and the Secretary of State for Social Services on such matters as the likely

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attitude of the 'low pay' lobby. The Foreign and Commonwealth Secretary may have comments on tactics towards the European Commission.

#### CONCLUSIONS

13. You will want the Committee to reach conclusions on the four specific changes proposed in E(82)68, ie:

- a. whether the earnings limits should be increased to £42 and £47, or to some lesser figures, or should be unchanged;
- b. whether the scheme should be extended to cover employment in domestic households;
- c. whether the scheme should be available to young people coming off the Youth Training Scheme in the same way as it is currently available to ex Youth Opportunities Programme trainees, and should also be available for 16 year olds alongside the Youth Training Scheme;
- d. whether, if required as a condition of approval by the European Commission, there should be a requirement that the employer should undertake to provide some training which he regards as appropriate.

PLG

P L GREGSON

12 October 1982

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SECRET

Prime Minister

12 October 1982

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To be aware of Alan's

ALAN WALTERS

PRIME MINISTER

GOVERNMENT POLICY ON UNEMPLOYMENT - CHANCELLOR'S REACTIONS (see the Chancellor's

OF 11 OCTOBER 1982

minute, at flag A)

MLS 12/10.

at flag

Most of the points which the Chancellor raises I have already covered in my memorandum of 14 September and later in the joint memorandum with Ferdinand Mount of 27 September. The Chancellor has not seen these memoranda and is understandably being defensive about claims arising from what he believes is my approval of the proposals in the Minford/Smith Report. (I was, of course, summarising not approving.)

There are, however, some errors in the Chancellor's memorandum and perhaps you might find occasion to bring them to his attention.

First, what is described as a "benefit cap" is not "effectively the wage stop under another name". It is administratively, economically and numerically quite different. The wage stop required the officials to estimate what wages would have been had the man got a job. The benefits cap, or perhaps more appropriately called ceiling, depends upon the pay level in the last job. It is the method practised by almost all European countries, with the exception of Belgium. All these countries manage to administer it effectively. Furthermore, unlike the wage stop, the benefits ceiling is not indexed. (The Chancellor describes the ideas as pretty familiar: they are indeed familiar, but not in the United Kingdom.)

So it bites // harder as each year unemployed goes by.

MLS

The second error is that the Chancellor believes that the Minford/Smith results hinge on "Laffer effects". Laffer effects arise when marginal tax rates are so high that, as one reduces them, the total revenue received increases. I know the Liverpool model fairly well and I have yet to find any ubiquitous Laffer effects of that nature in the model - although there were some when the marginal tax rates were at 86% and 98%. But the advent of many marginal benefit/tax rates of near or over 100% (as shown in both the Minford and Parker studies) should make one hesitate before cavalierly dismissing Laffer effects. At 100% or so, Lafferism is simply common sense.

/The Liverpool

SECRET

The Liverpool model is, of course, different from the Treasury model. Minford has adapted his model to deal with the various problems of the benefits, tax, wages nexus. Whether Minford or the Treasury, or anyone else is "best" for dealing with such problems cannot be adduced on present evidence.

The Chancellor is, therefore, perfectly right to stress the great uncertainties of the calculated effects of Minford-type proposals - whether they come from Minford's, the Treasury or any other model. As I emphasised in my memorandum of 14 September, there is enormous uncertainty about the numerical results. And one should certainly not trust them for any crucial calculations. The important point, however, is that the policy proposals go in the right direction, particularly the lifting of the thresholds.

In fact although we agree with the Chancellor that we cannot yet say how much will be available within the MTFS next year (and Minford's calculation was, as it must be, dependent upon hypothetical assumptions), nevertheless we believe it is important in the Budget process that lifting the thresholds should be the first priority rather than the last.

Characteristically, the budgetary process begins with particular tax changes, such as NIS in response to the CBI, or excise duty in response to the whisky industry, then goes on to see what is left over for raising the thresholds. The thresholds are the residual legatee. Consequently, in real terms they have steadily fallen over the years, as was pointed out in Hermione Parker's study.

It is not so much, as the Chancellor claims, that there are "rival claims on the table". The point is the rivals are always served first and the thresholds get the left-overs. The order should be changed in 1983.

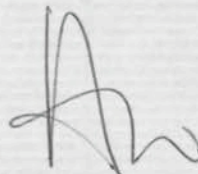
The benefits ceiling is more contentious and may be best left until after the election. However, at 90% rather than Minford's 70%, we can see a good case for associating this measure with the rise in thresholds (and boosts in child benefit) as a "package". There must be a widespread feeling that one should not get almost as much or more when one is not working. But political judgements must here

/loom much

loom much larger than economic calculation. And this must also be true of the "Workfare" proposals (which again are not familiar in the UK).

I would suggest that if you agree to the "dialogue" suggested by the Chancellor in paragraph 7, there ought to be a tight time limit. The business is urgent.

12 October 1982



ALAN WALTERS



E folder  
**CONFIDENTIAL**

Prime Minister

11 October 1982

ALAN WALTERS

Mcs 11/10

PRIME MINISTER

SECRETARY OF STATE FOR EMPLOYMENT'S PROPOSALS FOR YOUNG WORKERS SCHEME

I believe that the Secretary of State's proposals are, in the circumstances, reasonable and should be supported.

In one respect the proposals are inconsistent with the views which were accepted when the Young Workers Scheme was introduced. There it was argued that we should keep the limits at £40 (and £45) and allow the scheme to die a natural death. As nominal wages increased over time there would be fewer and fewer eligible for the YWS. The subsidy would naturally decay over time.

In particular we were adamant that it would not be indexed to the price level. It would certainly give the wrong signals to all participants if we adjusted it for retail prices.

The Secretary of State's proposal is for an increase consonant with increase of wage rates and much less than the increase in prices. In that sense it is less objectionable. It is also true that when we devised the system in July 1981, we anticipated that unemployment would begin to turn (or "top-out") some time in the autumn of this year. Now it looks likely that that date is shifted forward to some time next year, and the level of unemployment is likely to be higher than we had anticipated. These arguments, then, provide a rationalisation for moving the limits up to the levels suggested by the Secretary of State.

The extension to the employment of young people in domestic households, now suggested by the Secretary of State, was part and parcel of the original proposal. It was amended by the previous Employment Ministers to exclude employees of domestic households. (Probably they had in mind the political backwash to Alec Douglas Home's rather careless remarks about the need for domestic servants.)

I believe there is very considerable potential for expansion of employment in domestic households. It will be mainly of the form of home helps for working mothers (which are, of course, not/<sup>tax</sup>deductible). It is most unlikely that there will be any substantial expansion of

/employment

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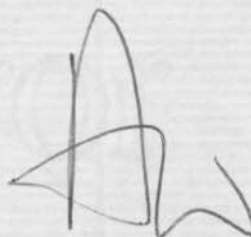
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- 2 -

employment in the households of the rich. This is because youth unemployment is concentrated primarily in the great conurbations and not in the diminishing number of country estates which still manage to survive. And it is most unlikely that there will be a substitution of temporarily subsidised teenagers for the old retainers.

The third element of Secretary of State's proposal is to extend the scheme to young people who complete the Youth Training Scheme. This is also a desirable move and will make a consistent package as with the old YOP programme.

11 October 1982



ALAN WALTERS

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Prime MinisterTreasury Chambers, Parliament Street, SW1P 3AG Mes 12/10  
01-233 3000

PRIME MINISTER

## GOVERNMENT POLICY ON UNEMPLOYMENT

On 14 September we are to discuss the CPRS Report on Unemployment and the Minford/Smith study of 16 September, on the basis of the papers attached to your Private Secretary's letter of 30 September. You may like to have some immediate reactions in advance of that discussion.

2. There is much that I can readily agree with in the general diagnosis in both reports. It is indeed pretty familiar. Understandably enough, the difficulties arise when we turn to prescriptions for action, and to priorities among them.

3. First, both studies, and particularly the Minford/Smith one, invite us to do some radical and politically very contentious things. It follows that the papers need to be handled very carefully - as your Private Office have rightly insisted; and that we need to establish at the outset just how robust and certain are the mechanisms by which the major measures are claimed to produce results; how quickly these results would be achieved; and how confident we could be of their scale.

4. Second, there is the question of estimated costs, if we are to take all the measures to the extent proposed. I was surprised by the net direct costs indicated in the Minford/Smith study: my first impression was that £7 billion would be nearer the mark than the £4.6 billion suggested (and I have asked Terry Burns to explore this with Alan Walters). But even if the direct costs figures are right, we need to probe the claims of big offsets producing



net costs of only £2½ billion in 1983-84 rising to £3¾ billion in 1984-85 before falling back to £2 billion. Clearly very considerable "Laffer-type" effects are expected, and I am bound to wonder about the eventual scale of these, and still more about the timescale suggested.

5. Moreover, even if we could rely on these net figures, I think it may be optimistic to suggest, as Alan Walters does in his covering minute, that £2½ billion is within reach without jeopardising our financial strategy. The fact is that we just do not know at this stage how much room we shall have at Budget time. And there will be rival claims on the table.

6. Finally there is the obvious matter of political, legislative and administrative constraints. We cannot, I am sure, simply assume these to be insuperable; we must be ready to look at hard courses, including ones we have looked at before. But we must draw sensibly on the lore and experience we already have about many of the ideas, and recognise their history - for example, the Minford idea for "benefit cap", which is effectively Wage Stop under another name, failed to win collective support not long ago.

? 7. All this leads me to believe that we must go forward methodically, without forcing the pace. One step I suggest we might authorise straight away is dialogue between suitable experts in Departments and the authors of the Minford/Smith report, to clarify and test aspects like those noted in paragraphs 3-4 above. We shall then need some means, in the light of whatever general policy preferences and guidance emerge from your meeting, of sifting the very large range of possibilities now on the table, and deciding on priorities.

8. Copies of this minute go to those who will be attending your meeting.

*G.H.*  
G.H.

11 October 1982

Manpower, Special Employment  
measures, Pt 8

12 OCT 1982

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GORDON

11



Caxton House Tothill Street London SW1H 9NA  
 Telephone Direct Line 01-213 6400  
 Switchboard 01-213 3000

cf sv

Prime Minister (1)

An important proposal.

Should I write to

Mr Nott's office making clear your support for

October 1982

The Rt Hon John Nott MP  
 Secretary of State for Defence  
 Ministry of Defence  
 Main Building  
 Whitehall  
 LONDON SW1A 0AA

*Resubmitted - has please!!*

*no his idea?*

*D John.*

*Mrs 14/10*

THE YOUTH TRAINING SCHEME AND THE ARMED FORCES

The Ministry of Defence is already making a significant contribution to the success of the Youth Opportunities Programme (YOP) by providing places for young people in civilian establishments. Last year we also investigated the possibility of setting up YOP schemes with the armed forces, but the proposal foundered largely on grounds of cost. Since then, however, you have set up the Youth Adventure Scheme which is giving two or three weeks of "Outward Bound" type activities to 5,000 16 to 18 year olds this summer. I understand that the scheme has been a considerable success.

The Youth Opportunities Programme will be replaced next year by our new Youth Training Scheme (YTS), which will provide a full year's foundation training to all unemployed 16 and 17 year old school leavers, as well as to many 16 year olds in employment. Altogether we are planning to involve 460,000 young people in the new scheme, which will be a radical new step in bridging the gap between the worlds of school and work.

I very much hope that Ministry of Defence civilian establishments will make at least as great a contribution to the new scheme as they have done to YOP.

In addition I should like to examine urgently whether we can together set up a similar type of scheme for the Armed Forces. This could give young people 12 months in the Armed Forces with training of the kind which will be offered by the Youth Training Scheme. I am looking for a scheme within the cost limits of the YTS, which will provide a block



grant of £1,850 per trainee (or £1,950 if the sponsor organises a full 12 months of training and work experience). It seems to me that as the trainees concerned would be housed and fed by the Services the normal allowance of £25 per week should be considerably reduced.

I very much hope that you will agree with this approach. I suggest that our officials should consider the matter and report back quickly. The YTS will be launched in September 1983 but there is no reason why the scheme I am proposing should not start earlier if this is possible.

I am copying this letter to the Prime Minister, with whom I have discussed this matter.

*J. Norman*

14 OCT 1962

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v) Mr Tebbit said that he was concerned about the circulation <sup>main paper</sup> of the Minford-Smith study. He had directed that this study should not go outside his office in the Department of Employment nor be photographed, and he was concerned that he had received a letter from No 10 containing photo copies of extracts a l b e i t with the instruction that they should not go beyond Priate Office. He thought it undesirable that this report should be photocopied at all. The Prime Minister agreed that circulation of such documents needed to be very closely controlled and she would give instructions personally about the distribution of such documents by her office or the Cabinet Office.

Extract from  
the record of  
PM's Meeting  
with S/SEmp  
on 11/10/82.

On the content of the Minford-Smith study, Mr Tebbit said that this study was similar to Professor Minford's Selsdon group paper, and he understood that work by the Treasury had discredited some of this. He did not think that it would be possible to "cap" unemployment benefit before the next election and he was worried about the estimates of cost of the two stage family benefit. The Prime Minister agreed about the first point, but said that it would be very difficult for the Government to take the necessary action if it was prohibited from doing anything which resulted in some people losing their present benefit.

- vi) Mr Tebbit said that he would want to come back to the Prime Minister about the proposed increase of £5.00 in the maximum weekly pay figures qualifying for subsidy under the young workers' scheme. The Prime Minister said that she was very reluctant to see increases made in these figures; she would rather put pressure on the wage councils to reduce their recommendations. Mr Tebbit said that his concern was that take up of the young workers' scheme would be reduced if the maximum figure were not raised.
- vii) Mr Tebbit said that he was much in favour of David Young's ideas on the development of the Manpower Services Commission's activities in long term training and education. He would be discussing them with Mr Young and also pursuing with the Secretary of State for Education the suggestion that technical schools should be re-established.
- viii) Mr Tebbit mentioned that he was resisting ODA ideas for financing tours by trade union leaders around the Commonwealth.

F.R.B.

11 October 1982

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CONFIDENTIAL

cc JD



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Prime Minister ②

Mus 5/10

John Gieve Esq  
Private Secretary  
Chief Secretary's Office  
Treasury  
Great George Street  
LONDON SW1

5 October 1982

Dear John

My Secretary of State has asked me to let the Chief Secretary know that, when he makes his announcement about the Job Splitting Scheme on Thursday of this week, there will be one small change from the proposals which the Chief Secretary agreed to in his letter of 14 September.

The question of minimum hours is, as the Chief Secretary pointed out, finely balanced, but the Secretary of State has accepted the arguments in favour of a 15 hour minimum both in John Sparrow's letter of 13 September and in the CPRS unemployment report.

The Department will continue to say, as previously agreed, that further consideration is being given to the position of the Civil Service.

I am copying this letter to the Private Secretaries of the other members of E Committee, Sir Robert Armstrong and John Sparrow.

Yours

ROSALIND McCARTHY-WARD  
Private Secretary

Manpower, Employment Measures P48

5 OCT 1982



WORKFAREA. INTRODUCTION

1. This note is concerned with the possible introduction in the UK of the concept of "Workfare", defined as a system whereby unemployment and supplementary benefit recipients are required to perform a certain form of work in exchange for receipt of benefits. This note looks first at the principles involved; then analyses the relevant history and experience of others, mainly American; it next appraises the advantages and disadvantages of a possible scheme in Britain; and finally discusses coverage and the prospects for its introduction here.
2. Workfare is only one constituent part of any welfare and social security policy. However, it could be of such a transforming nature in Britain that it may change significantly the whole ethos and approach to work and a way of life generally, and the approach by some to benefits particularly. Workfare could become a key cornerstone in a modernised Welfare State, with the possibility of a gradual introduction, say, commencing with one particular segment and combining it with job search and assisting in making a significant positive contribution towards bringing down unemployment by reducing real wages and thus creating new jobs.

B. HISTORY

3. The whole idea of Workfare has Transatlantic origins; in the USA some individual states have for some time required recipients of local state welfare funds to work - eg New York, Utah. However, it is only recently under Mr Reagan, first as Governor of California (1973-77) and then as President (from 1981) that the concept has gained momentum nationally. The US Budget Reconciliation Act 1981 included a federal provision which enabled all states to introduce Workfare schemes; this legislation required that the jobs undertaken should offer work experience, should not displace an existing employee, and be one that could not be filled by advertising.
4. The US Workfare programme is linked with its Aid for Families with Dependant Children (AFDC) scheme which is a matching programme financed by the Federal Government and by individual states. To

qualify for benefits under AFDC, which is available only to families with dependant children who also suffer from the father being unemployed, being a one-parent family or having a disabled child, the 1981 Act gave the individual states the option of requiring AFDC recipients to work in exchange for receipt of benefits; new 1982 proposals recently made would change this to mandatory, rather than optional. AFDC is regarded as a key element in the American welfare system, and eligibility for benefits is often the criterion for other welfare and, eg medicaid.

C. AMERICAN EXPERIENCE

5. About 15 states out of 50 have already introduced the federally-inspired Workfare programme, but within these 15 states, most are limited so far to certain counties only. Only three states - Idaho, Oklahoma and West Virginia - have full statewide schemes. However, as noted earlier, some states have long required recipients of purely local welfare funds to work, but these schemes are distinct from the present Federal Workfare programme.
6. Reports from the three states with statewide Workfare programmes indicate that they are popular - at least with the legislators. The public sector jobs created are mainly of a clerical or maintenance nature, and do provide useful work experience for the individual and perform a useful public duty; there are other jobs in the private and charitable sectors which offer a wider range of work. There has been some, not unexpected, opposition from the public sector trade unions and some states have encountered unanticipated costs over work supervision and equipment.
7. American national experience to date may be insufficient to make any judgment, but in the state of California (with a population of over 20 million and GDP around that of the UK) under then Governor Reagan there has been a longer history, starting from 1971 when a three-year demonstration programme commenced, which is looked upon as the blueprint for the present proposals. Here there were some high, possibly too high, objectives which encountered some hiccoughs and local party political opposition. Whilst this programme was not adjudged too successful, some would argue it was not really given a chance to work. It did, however, serve to highlight the potential of Workfare, namely it could be both administratively feasible and practical, it could reduce the

dependency on welfare, it could deter new welfare applicants, and it was possible to cut public expenditure.

D. ADVANTAGES FOR BRITAIN

8. A major advantage of Workfare is that the notion of "something for nothing" is eliminated. Welfare benefits would no longer be regarded as a free good and the permanent and in some ways debilitating dependence on welfare could be avoided. The community, which through taxation finances the various social welfare schemes, would not only obtain, but could see, a real gain in the shape of increased evidence of activity at day care centres, old folks' homes, nurseries, libraries, parks etc, as well as various charitable, religious and private activities. Consequently, there might be some small reduction to objections to paying taxes and rates as well as a more general acceptance of the so modified welfare state.
9. Workfare offers advantages to the participant in that work experience and training are acquired which could be of value in seeking a future job outside the Workfare system; good work records and references could be built up. The participant could also acquire a sense of discipline, pride and independence which are becoming qualities of growing significance in an increasingly competitive world. The value of the participant to society at large would be increased and the training provided could be aligned with that in other national training programmes supplied by the MSC. It could also help new (and old) immigrants to adjust into British society by bringing them more into contact with aspects of it.
10. Though not a prime aim, a significant deterrent effect to the claiming of benefits would be created. A "work-shy" individual would have every incentive to abandon his so-called shyness as benefits would no longer support and induce such behaviour. Fraud and abuse of the welfare system would fall, as particularly the "working and signing" brigade would be stumped; scope for involvement in the informal, or black, economy would be consequently affected. Both groups would need to be busy elsewhere on "community" work if they wished to draw benefits. A reduction in the number of claimants would thus enable reductions in public expenditure and also Civil Service numbers to occur.

1. As part of the Workfare concept, there would be no displacement of existing workers, and therefore nobody would be added to the unemployment register. Real wages elsewhere in the labour market could fall as some of those unskilled vacancies at present on the margin of employment were allocated to Workfare participants, thus helping to create new jobs and raise employment.

E. DISADVANTAGES FOR BRITAIN

12. It is possible to identify some of the disadvantages of having a Workfare system in Britain and to indicate the arguments that would be mounted against such a scheme being introduced. Some would regard Workfare as an alien attack on either human rights or the welfare state; this might be resisted on the grounds of limiting benefits to justified needy recipients just as the Poor Law Amendment Act of 1834 curtailed the earlier generous Speenhamland system. Adjustments to welfare is no new idea. For a Workfare system to be effective it needs to be mandatory and as such might be seen as a restriction on the freedom of the individual; this is another possible disadvantage. It may further be argued that Workfare would not allow a recipient to escape immediately from the circumstances which originally led to welfare dependency, as his income would be unchanged - but he would be gaining valuable training and experience.
13. The scheme might be seen as anti-trade union in that it would create a non-unionised workforce for unwanted, menial jobs. On this postulation, no new jobs might be created at all, as all new vacancies would be filled by "costless" Workfare candidates; but some Workfare trade unions might indeed evolve. There would certainly need to be a list of exemptions from the scheme, eg mothers of young children, and it would be advanced that this list of exemptions would need to be extended considerably to be realistic - eg all females, all over 50, all with a sickness record, etc - so as to deny the scheme any real chance of success.
14. The training element in Workfare might only be of such a narrow and limited value to participants because of the general menial and restricted classification of the tasks envisaged, but Workfare does not exclude professional or skilled posts. A Workfare training scheme might be confused with other DE or MSC training programmes.



For the scheme to be fully effective, a long time scale might be necessary, as it could take a fair period for these various labour market changes to penetrate and affect personal behaviour.

15. If applied to families with children, there could be child care problems which would create a demand for new care facilities (to be manned by Workfare?) Furthermore, the Workfare programme would involve additional public expenditure to cover management, co-ordination and equipment for the programme. It would also require the full support of various local bodies - local authorities, charities, churches, etc - and some (with a different outlook or political colour) would deny that support. The Californian initial experience would be cited in support of local difficulties surrounding a Workfare programme.

F. COVERAGE

16. This is an important aspect in any Workfare programme. The widest possible coverage would bring about the greatest results; but it could involve over 3 million persons and would indeed be a mammoth programme. Realistic exemptions - one-parent families, mothers of young children, disabled, etc - would reduce this figure a little, but even if applied to the remainder of the unemployed, it is still no small programme involving over 2 million persons. It might therefore be worth considering some differentiation which resulted in an initial smaller number.
17. Differential coverage could be the answer initially. It might be worthwhile concentrating at first on the young unemployed, rather than to try differentiating by region, sex, duration or skill. At present there are 950,000 unemployed aged 21 and under; this is a group with very little financial commitment and often living at home. It is also one where the training investment element should be at its greatest, and if any teething problems arise, these could be resolved before the scheme is widened, eventually to embrace all further groups of the unemployed. It could also be worthwhile to mix Workfare with Job Search - say 4 days of Workfare and 1 day on job searching, so as to maintain incentives.

PROSPECTS FOR THE INTRODUCTION OF WORKFARE AND CONCLUSION

18. The time might now be judged to be politically ripe for the significant transformation of part of the welfare system that Workfare is. There are considerable potential gains both in terms of an attack on the "Why Work" syndrome and because of potential public expenditure savings. American experience has shown that Workfare is realistically feasible. Local co-operation is an essential element in the scheme, and this may need to be obtained from a variety of local bodies. It may be thought best to introduce Workfare gradually and, if so, a good case can be made out for starting with those of 21 and under.

ADRIAN SMITH



Manpower  
cc J  
AW

MSPM  
ms 5/10

FCS/82/146

SECRETARY OF STATE FOR EMPLOYMENT

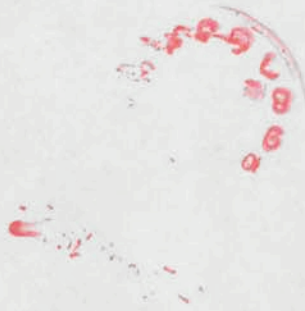
Young Workers Scheme

1. I have seen a copy of your letter of 21 September to Geoffrey Howe about the continuation of the Young Workers Scheme. I have no objections to the changes you propose.
2. I agree we have a commitment to inform the European Commission. Although the Scheme has never been popular with them I understand they are unlikely to raise serious objections. It will be important to satisfy the Commission that YWS has not distorted competition 'by favouring certain undertakings or the production of certain goods' as proscribed by Article 92.1 of the Treaty of Rome.
3. I am copying this letter to recipients of yours.

(FRANCIS PYM)

Foreign and Commonwealth Office  
4 October, 1982

Manpower, Employment  
Measures, Pt 8



Manpower (A) 259  
1A

file



cc: Mr. Mount  
Miss Stephens

10 DOWNING STREET

cc HWT DHSS  
Emp DOI

From the Private Secretary

30 September 1982

Dear John,

GOVERNMENT POLICY ON UNEMPLOYMENT

Earlier this year the Prime Minister asked the CPRS to undertake some work on the problem of unemployment. Later, she asked Alan Walters here - in conjunction with Professor Patrick Minford of Liverpool University - to produce a parallel study on the same subject. Both these pieces of work have now been completed, and the Prime Minister wishes to hold a small meeting with colleagues to consider the next steps.

We will be in touch with you and the other Private Offices concerned to arrange such a meeting in the week beginning 11 October. I attach a copy of a checklist, prepared by the CPRS, which will serve as an agenda for the discussion. I also attach copies of the summary of the CPRS's proposals and of those in the Minford Report. I am not copying with this letter the Annexes to the Minford Report - which are very lengthy - or the whole text of the CPRS Report. If you wish to see these, no doubt you will get in touch with me.

The Prime Minister has instructed that the copies of the two Reports should not go beyond the Private Offices concerned, and I would be grateful if you could ensure that the necessary arrangements are made to put this into effect.

I am sending copies of this letter and enclosures to John Kerr (HM Treasury), Barnaby Shaw (Department of Employment) and David Clark (Department of Health and Social Security), and Jonathan Spencer (Department of Industry).

Yours sincerely,

Michael Schölar

John Halliday, Esq.,  
Home Office.

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bc JV

10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear Barnaby,

Job Splitting Scheme

The Prime Minister has seen the recent correspondence, beginning with your Secretary of State's letter to the Chancellor of 8 September and including the Lord Privy Seal's Private Secretary's letter of 15 September, about job splitting and Civil Service participation in this scheme.

The Prime Minister has commented that she assumes that Civil Service participation in the scheme can be brought about at no extra cost.

I am sending copies of this letter to the Private Secretaries to the Members of E Committee, Richard Hatfield (Cabinet Office) and Gerry Spence (CPRS).

Yours sincerely,

Michael Scholar

Barnaby Shaw, Esq.,  
Department of Employment.

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da

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A. Walters

CONFIDENTIAL



bc JV

10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear Barnaby,

Young Workers Scheme

The Prime Minister has seen a copy of your Secretary of State's letter of 21 September to the Chancellor of the Exchequer, in which he proposes, inter alia, that the present earnings limits of £40 and £45 in the Young Workers Scheme should be raised to £42 and £47.

The Prime Minister has commented that she thinks it unwise to raise these limits now. Such action would give rise to the expectation that the limits would be raised every year; and the Chancellor of the Exchequer has just made a speech discouraging such expectations.

I am sending a copy of this letter to the Private Secretaries to the other Members of E Committee, Richard Hatfield (Cabinet Office) and Alan Walters.

Yours sincerely,

Michael Scholam

Barnaby Shaw, Esq.,  
Department of Employment.

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*File*

*88*

30 September 1982

UNEMPLOYMENT BENEFIT

Thank you for your letter of 27 September about the qualification for claimants for unemployment benefit.

I showed this to the Prime Minister on her return from the Far East, and she has read it without comment.

**M. C. SCHOLAR**

J. C. Milner, Esq.,  
Minister of State's Office,  
H.M. Treasury.

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Covering Secret

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PRIME MINISTER

UNEMPLOYMENT - CPRS AND MINFORD/SMITH STUDIES

As you requested, the CPRS have produced an action check-list (Flag A) as a follow-up to the evening discussion on 13 September. But I have been worried about the risk of leaks, particularly of the Minford/Smith proposals on capping unemployment benefits and on reforming the labour market. CPRS have therefore been constrained in setting in hand the action proposed (we have not, for example, sent a copy of Minford/Smith to Mr. Fowler's Office, and we cannot get very far in restructuring these benefits without DHSS involvement).

Peter Gregson (Flag B) suggests you have a small meeting, with the Chancellor, Mr. Tebbit and Mr. Fowler. Ferdie Mount (Flag C) suggests adding Mr. Whitelaw. Agree?

Yes - Patrick Tebbit could also come in.

Will the CPRS check-list suffice as an agenda for the discussion?

May I circulate the CPRS check-list to the Chancellor, Mr. Tebbit and (with the Minford Report) to Mr. Fowler?

Please see, too, Alan Walters' note (Flag D) on Hermione Parker's complementary study on unemployment and incentives.

MLs

27 September 1982

Yes - but NOT to go beyond the private offices.

UNEMPLOYMENT: THE NEXT STEPS

The two unemployment studies from the CPRS and from Professor Minford are different in style. But they do agree on the main things to be done.

- i. Some reduction in income tax on the lower-paid.
- ii. Some improvement in FIS and child benefit to help poor working families.
- iii. Some device - CAP or wage-stop - to attack the Why Work syndrome.
- iv. Some kind of no-benefit-without-work scheme - "Workfare".
- v. Some further steps to reduce trade union immunities.
- vi. The abolition of Wages Councils and other impediments to the labour market.

There is a surprising degree of agreement in the studies about what to do next. The question now is when, how and how much.

Timing

The political pressure this autumn to take some action will be intense. The good news from the other aspects of the economy does not unfortunately compensate for the bad unemployment figures and the figures for manufacturing industry, which continue to show few signs of improvement.

There is a danger that if we were to delay the announcement of otherwise admirable measures until the Budget, they might arrive too late. The Government might have come to be regarded as helpless in the face of rising unemployment. We are all well aware of how quickly apparently unchallengeable leads can slip away if the essential authority is lost. There comes a point when genuine steadfastness is all too easily mistaken for immobility and lack of ideas. That mistaken perception undermined the Barre economic programme; and perhaps the Schmidt coalition too. We may therefore judge it desirable to respond to these pressures in giving some advance indication of our plans.

On the other hand, if the resumption of economic growth now forecast in several of the City bulletins begins to show up in the more lagging indices such as unemployment, then there is considerable virtue in sitting still and not fidgeting.

Either way, if there is to be a single announcement of the public expenditure decisions (together with the other announcements and forecasts which the Treasury is obliged to make at this time) there is much to be said for attempting to make these low-key by giving them in written answers. However, there is bound to be a good deal of interest in the public expenditure decisions - scare stories about massive cuts and so on - and we may scotch this if we at the same time make a statement about our proposals to deal with unemployment in its broadest aspect.

And that would surely mean including some announcement about our intention to raise income tax thresholds in the Budget. On its own, a declaration that we plan to introduce Workfare or a cap on benefits might well seem harsh and negative.

Whatever action we propose must:

- (a) maintain the line of the Medium-Term Financial Strategy and enable us to meet our PSBR and monetary targets;
- (b) correspond with Conservative aspirations to a low-tax society, without being in any sense reflationary;
- (c) be generally seen to be fair;
- (d) be generally seen to have a direct effect upon unemployment; and
- (e) improve the confidence of manufacturing industry.

#### A Possible Programme for Action

1. By far the most important measure must be to raise tax thresholds in the next Budget. It is the post-War impact of income tax upon the poorer working classes that has given work a bad name. The psychological effect of the poverty trap spreads far beyond those families who actually have marginal tax rates of approaching 100% or more.

Whatever the virtues of the rival measures suggested by the CBI - such as the abolition of NIS and of the investment income surcharge - they cannot affect attitudes to work and the business climate nearly so directly as income tax cuts. Tax cuts were, after all, one of this Government's central commitments. Except for the upper income groups, we have not yet fulfilled that commitment.

Professor Minford suggests raising thresholds by 25% in the coming year at a cost of £2.6 billion, with a further 15% in the year after, at a further cost of £1.7 billion.

The Chancellor could not make an unqualified commitment now, but he could say something like: "If wage settlements in the public sector are modest this winter, my firm intention is to raise the tax thresholds by 20% in the next Budget". This would leave room to do better if we can when the time comes.

The tradition is for the Chancellor to keep his pleasant surprises up his sleeve and, in particular, to treat income tax cuts as residuals. As a result, they often get lost in the pre-Budget lobbying. We believe that it is preferable to structure the next Budget (the last one to affect incomes before the Election) around the tax cuts we are seeking, and to say so now, if we are saying anything at all. This would have several advantages:

- (a) it would give more time for the tax cuts to soak into the public consciousness;
- (b) it would offer industry and commerce an assurance that real disposable incomes, and hence consumer demand, will be allowed to grow steadily, and so should encourage restocking;
- (c) we shall never move towards a low-tax society unless we take tax cuts as the prime desideratum;
- (d) without some positive and attractive element, any autumn statement on remedies for unemployment would be liable to depress business confidence rather than raise it, and would certainly yield few political benefits.

2. The poorest families still are often found among those where the husband is in low-paid work. FIS is better than nothing, but it is

bedevilled by poor take-up. The CPRS mention the Canadian system of a refundable second tier to child benefit. This would improve on FIS for the employed and replace dependant allowances for the unemployed, thus smoothing out the "benefit gap" between employed and unemployed parents (which is largely caused by FIS and rent and rate rebates being less generous than their unemployment benefit counterparts). This would be far more cost-effective than loading all the increase onto a flat-rate child benefit. The clawback could come through the tax system, but the taper would begin well above present poverty trap levels. The cash would be payable through the Post Office at the same time as child benefit. There would be an extra cost involved in shifting the taper up the income scale, but the outcome would be far more cost-effective than simply increasing child benefit for all. And unemployed men would know that getting a job would not endanger any part of their child support from the state.

Whatever we suggest must not hurt the children of the unemployed. After all, men with families form only a tiny percentage of the unemployed; it is they who are most likely to be in the unemployment trap, but all the evidence suggests that they are the most eager work-seekers.

We suggest that the DHSS:

- (a) urgently investigates the possibility of a refundable second-tier child benefit; and
- (b) as a fallback, produces improvements to FIS which would smooth the differences between child support for the employed and child support for the unemployed.

3. Many continental countries already have a two-thirds cap on unemployment benefits. Such a cap is accepted in those countries as sensible.

But could we justify introducing a 70% cap in the depth of the world recession, as Professor Minford suggests?

We should not only be accused of blaming the unemployed and punishing them for that recession - for which we have previously blamed external

factors. It would also be pointed out that social security benefits have fallen as a percentage of income-in-work during the period (1965-82) in which unemployment has risen. This fall may conceal an increased dispersion of replacement ratios - so that some unemployed people do have much less incentive to do low-paid work than they did 20 years ago. All the same, the difficulties of justifying in equity such dramatic alteration in the benefit arrangements at this stage are considerable.

The same odium does not attach to a 90% cap. It is contrary to equity that a man should receive more out of work than in work. And Britain always had a wage-stop until 1975. A 90% cap would be based on past actual earnings instead of the administratively costly and less reliable process of estimating future earnings. The cap also has the consequent advantage of not being indexed, since it relates to the past, not the future. It effectively applies a downward squeeze to maximum real benefit over the years, thus quietly accelerating the reduction of unemployment. But at the outset, the 90% cap might be regarded as presenting a minimum incentive to seek work. And it would therefore conform to popular notions of fairness. The psychological incentive effect might be considerable.

And now would be the time to do it, when social security benefits are to be raised 4% above the likely inflation rate. We suggest that the DHSS prepares a scheme for a 90% cap on benefits.

#### WORKFARE

4. We all agree that some kind of Workfare scheme would be desirable to bring hope and purpose to the long-term unemployed. As Professor Minford points out, such a scheme depends on establishing a Job Pool. He suggests that young workers should be expected to accept a job out of that Pool after 3 months; older workers after 6 months. We believe that, as a start, it would be best to restrict the scheme to 16-21 year olds, because <sup>of</sup> the difficulty of filling a Pool which would provide work for all at short notice.

But what is really needed is the administrative will to set up the Job Pool. The Government would have actively to enlist the support of every Church and voluntary body as well as of every local authority. The political difficulty would be to secure the support for a scheme which includes the denial of benefit to non-participants.

This difficulty is lessened if we restrict the scheme to the young  
who, in some countries, would not be entitled to unemployment  
benefit in any circumstances and who, since they mostly live at home,  
could not be said to be "compelled" by poverty to accept work.

The unhappy experience of the training allowance strongly suggests  
that we can expect little or no co-operation from the TUC element  
on the Manpower Services Commission and that the CBI element will  
meekly tag along behind the TUC. Yet for Workfare to have any  
chance of getting off the ground, it must have a Director - and a  
corps of local "pool managers" - with full powers to bring every  
available job - full-time or part-time, paid or voluntary - into  
the pool.

Either David Young must be freed of his TUC-CBI shackles.

Or Norman Tebbit will have to run it directly through the existing  
machinery of the job centres which might need to be reunited with  
the DHSS offices.

We suggest that you discuss this further with Mr Young and  
Mr Tebbit.

5. We might also consider a capital spending programme of essential  
labour-intensive public works - by-passes, road repairs and sewers,  
perhaps supplemented by time-limited tax reliefs on house repairs.  
Unemployment in the construction and civil engineering industries  
is particularly bad. It is no fault of these industries that their  
customers tend to be in the public sector and so have had their  
programmes pre-empted by current spending. As the CPRS point out,  
it is usually possible, eg under the 1973 Water Act, to earmark  
funds for such purposes.
6. These proposals could be presented together alongside the public  
expenditure decisions in the autumn to counter the allegations that  
we are doing nothing about unemployment and nothing to "get the  
economy moving".

Of course, these proposals could be put forward only if they could  
be accommodated within the Medium-Term Financial Strategy. At the  
moment, there is good reason to believe that they could be. But it  
would be important that any announcement would make it crystal  
clear that there is to be no weakening in the campaign to defeat  
inflation.

Or, if it is felt that on balance such a mixture of proposals does not offer sufficient political advantages to outweigh the disadvantages of public announcement, the relevant departments could quietly continue with preparatory work. Some of the proposals would certainly be easier to introduce at a time when unemployment had begun to fall again and jobs were generally perceived as being more plentiful.

But, even if we decide not to announce the reforms of social security until they are worked out in detail, there is still a strong case for the Chancellor to commit himself on thresholds before the winter.

7. The many other useful detailed proposals in both reports could be entrusted to the relevant departments, with both the Policy Unit and the CPRS making sure that the more promising ones do not get lost. The more important ones - such as further action on trade union immunities - are already being considered.

Neither report spends much time on some of the longer term questions which need examining; the impact of the new technology on employment, particularly on clerical jobs, and the possible future shapes of the labour force and of the working week. We hope to offer some suggestions on these topics as soon as we can.

We suggest that the major steps we have outlined here might be discussed by a small group of those Ministers most directly concerned: Sir Geoffrey Howe, Mr. Tebbit and Mr. Fowler, augmented by Mr. Whitelaw.

27 September 1982

ALAN WALTERS

FERDINAND MOUNT



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Prime Minister (2)

To note: for action in  
the unemployment study follow-up.  
Plus 29/7

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq  
10 Downing Street  
LONDON  
SW1

27 September 1982

Dear Michael

UNEMPLOYMENT BENEFIT

During the seminar on unemployment on Monday 13 September the Prime Minister asked John Wakeham to investigate her recollection that at one time it was necessary for a claimant to be 'actively seeking employment' to qualify for Unemployment Benefit whereas now it is only necessary to be 'available for employment'.

The particular qualification the Prime Minister recalls was probably one introduced in the Second Unemployment Insurance Act of 1924 which added to the then existing condition that 'a claimant must be capable and available for work' the new and further condition that 'a claimant must be genuinely seeking work but unable to obtain suitable employment'. In January 1927 the Blanesburgh Committee recommended that the 'genuinely seeking work' condition be statutorily defined. This was not done, however, and in 1929 the Morris Committee recommended that the 'genuinely seeking work' condition be abolished. The Unemployment Insurance Act 1930, brought in by the new Labour administration, adopted this recommendation by repealing the 'genuinely seeking work' rule and replacing it by a condition that any claimant who failed to apply for a job vacancy notified to him, refused a job without good cause or failed to carry out a written direction from a Ministry or Labour official, should be disqualified from benefit for up to six weeks.

If the Prime Minister would like further information on the introduction or more probably the withdrawal of the 'genuinely seeking work' stipulation I suggest you contact the Secretary of State for Social Services' office. Briefly, I understand that

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the Morris Committee's recommendation that the rule be dropped was based on their view that it was too subjective - trying to ascertain the unknowable : the state of a man's mind - and that it became unworkable when a trade depression occurred. Mr Wakeham's own personal observation based on this brief summary of the Morris Committee's reasoning, is that we are now 50 years on, Unemployment Benefit is not such a new thing and perhaps now we would be better able to assess whether someone is 'genuinely seeking work'.

Yours sincerely

Jim Milner

J C MILNER  
Assistant Private Secretary

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DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister (2)

2 = PP's

MUS 27/9

The Rt Hon Norman Tebbit MP  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
LONDON SW1

*I assume it can be done at no cost?*

23 September 1982

*MS*

*See Norm*

JOB SPLITTING SCHEME

I was grateful for a copy of your letter to Geoffrey Howe of 8 September about your job-splitting proposals.

Subject to the resolution of the problem to which Janet Young has referred (her Private Secretary's letter of 15 September) I would be in favour of Civil Service participation in the scheme. Indeed I may say that this Department has already begun an exercise to identify non-industrial posts where there is potential for job-splitting as part of a Management and Personnel Office initiative to help staff through periods of domestic difficulties. Although the exercise is not yet complete it looks as though there might be scope for splitting up to 150 to 200 non-industrial posts (mostly in the Administration Group) and perhaps a limited number of Professional and Technical posts, too.

I am advised that there could be extra management effort and cost; and in so far as this materialises I would need to be assured that, if we do proceed, my existing allocations for

administration could if necessary be adjusted to cope with any likely extra demands which a job splitting scheme may place upon them.

I am copying this letter to members of E Committee, Sir Robert Armstrong and John Sparrow.

*Gannan*

*David*

DAVID HOWELL

23 SEP 1982

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RB  
FM  
DW

PRIME MINISTER

UNEMPLOYMENT AND INCENTIVES - THE MORAL HAZARDS OF SOCIAL BENEFITS  
RESEARCH MONOGRAPH 37 (IEA) BY HERMIONE PARKER\*

Selected  
in Yellow  
Notes  
behind this  
file

This study by Hermione Parker, formerly Research Assistant to Ralph Howell and now an Adviser to the Treasury and Civil Service Sub-Committee, is directly relevant to the discussion on measures to promote employment. The analysis and the results are virtually the same as the Minford/Smith Study. Both emphasise that the issue must be examined at the margin. Both studies work through particular cases to show the disincentive effects.

This marginal approach is essential in order to discover the disincentive process. As I have argued ad nauseum, the use of average calculations as done by the DHSS and to a large extent pursued by the CPRS study, obscure the scissors effect of taxation on the one hand and benefits on the other. Parker, like Minford, is scrupulous in including all benefits, including the passported benefits, in calculation. This makes sense.

The Parker Study, although reaching the same conclusions as Minford/Smith, develops a different set of policy proposals. Parker is primarily concerned with a root and branch change in the system. She wishes to see a complete integration of the welfare and taxation system. So do we all. This would avoid many of the anomalies, disincentives and plain idiocies of the present arrangements. But Minford/Smith recognise that this is indeed a long run business. Their proposals, therefore, were primarily confined to an interim programme which could be enacted within our existing administrative arrangements. Another difference in the recommendations arises from the fact that Minford/Smith took considerable account of experience in Europe, where the Parker Study is confined largely to British experience.

In short, the Parker and the Minford/Smith Studies tend to on the one hand confirm one another, and on the other hand complement one another.

ALAN WALTERS

22 September 1982

\*The attached is a Galley Proof and does not incorporate the figures.

Flag A	-	Balance of Tax v. Benefit
B	-	Poverty Trap
C	-	Poverty Plateau
D	-	The Unemployment Trap
E	-	Supplementary Benefit Trap
F	-	Lone Parent Trap
G	-	Effects on Work Disincentive
H	-	Policy on Income Redistribution
J	-	Benefit System
K	-	Child Support
L	-	16/19 Age Group Support
M	-	Housing Benefit Contradictions
N	-	Integrated Income Redistribution System
P	-	Conclusions

(Galley  
Proofs)

~~JBW~~

PRIME  
MINISTER

# THE MORAL HAZARDS OF SOCIAL BENEFIT

RESEARCH MONOGRAPH 37—9/11 UNI 689/696

## Introduction

Hermione PARKER

### **Economic Effects of Moral Hazard**

by LORD HARRIS OF HIGH CROSS

In the world of commercial insurance it is understood that if a person is completely covered against all risk of loss—whether from fire and burglary, or even from accidents and illness—he is likely to behave less carefully in minimising costs. This comprehensive cover against the cost of car repairs and medical care will incline at least some motorists to take more risks. It is to minimise such perverse effects that car and health insurance policies require claimants to pay a proportion of the cost, just as theft insurance may require the householder to fit effective locks and other safety devices.

Students of insurance use the term 'moral hazard' to describe this danger that policy-holders will take less care to reduce any costs against which they can insure. By insulating the individual from loss, the effect of such insurance is not simply to transfer the cost from the individual to the insurance company, but to increase the total costs, borne in varying proportions by the company in lower profits and by the insurer in a higher premium.

A precisely similar dilemma confronts all public or private philanthropy aimed to protect people from poverty. Wherever relief is conditional on evidence of 'need', it inevitably weakens the general impulse of self-help for all but the most independently minded who still feel a stigma about 'charity', or the most severely handicapped who cannot anyway help themselves. Thus if a means test takes account of an individual's capital, it must tend to discourage thrift or encourage the dissipation of savings.

It is an economic merit of private charity that the donor can discriminate arbitrarily in favour of the 'deserving' poor and impose limits or conditions to contain costs. It is the political disadvantage of public 'compassion' (at taxpayers' expense) that it more often operates progressively to raise benefits, extend their coverage and remove or weaken such conditions as the now largely defunct test for unemployment benefit of 'genuinely seeking work'.<sup>1</sup> Even Keynes before the war acknowledged that the availability of a 'dole' that was modest by today's standards contributed to 'voluntary unemployment', especially for people who would have been able to earn only a low income by taking a job. In *The Moral Hazard of Social Benefits*, Hermione Parker reveals with detailed examples how this disincentive effect of benefits has been multiplied by the dampening effect of taxation in reducing the take-home pay from unskilled work to little more, or even less, than the income in cash and kind from an almost bewildering variety of social programmes that since Beveridge have 'grewed like Topsy'.

The author is not chiefly concerned here with the moral and social consequences for independence, self-reliance, tax evasion, the underground economy and the weakening of family life and mutual aid. Her concern is rather with the economic damage of depressing incentives for millions of able-bodied people to work and save and so distorting the employment and application of human resources.

Mrs Parker does not extend her analysis to the ramifications of heavy taxation throughout the economy or its distortionary and depressing effects on high enterprise and investment. Her concern is rather with ordinary families, and with the combined effects of high taxes on low incomes and of the welter of mostly tax-free benefits available from the state in place of income from employment.

The spread of such costly, ill-devised welfare policies throughout Europe and North America must help explain the difficulties so many governments now have in extricating their economies from the unholy combination of high inflation and rising unemployment. The familiar complaint of excessive labour costs has many causes, including over-powerful trade unions and minimum wage laws. But there can be little doubt that costs of production have been inflated by a growing element of various forms of taxation made necessary by the rising bill for social benefits. At the same time, the indexation of benefits must make them more attractive compared with net incomes from work which are now commonly rising more slowly than the price index. Finally, the pressure to raise wage costs, especially for the lower paid, has plainly been intensified, on the one hand, by higher social benefits and, on the other, by the inroads on low earnings by the voracious taxation necessary to finance the mounting bill for social benefits.

Mrs Parker's central finding is that generous social policies have had perverse economic effects by weakening or destroying incentives to work for heavily taxed take-home pay. A clear result is to encourage, extend and prolong dependence on social benefits which are themselves an increasing cause of higher taxation. It is difficult to see how vigorous economic progress will be fully resumed until the baneful effect of what I call the 'tax-benefit mangle' is progressively diminished.

All the more dismaying is it that an earlier version of this Monograph prepared for Social Trends failed to get departmental clearance on the ground that it was against government policy to acknowledge the seriousness of this problem. One measure of the scale of the Government's dilemma is that to raise all personal tax allowances and thresholds by no more than 25 per cent would reduce government revenue by over £4 billion.

Yet until the economic cost of moral hazard is tackled by cutting direct taxes and containing the cost of social benefits the prospect for rapidly declining unemployment must remain remote.

August 1982

RALPH HARRIS

<sup>1</sup> Official surveys have regularly found that 10 to 20 per cent of the registered unemployed are not 'actively looking for work'.

benefit in take-home



## PART ONE

# The Nature of the Problem

### 1. THE BALANCE OF TAX <sup>(?)</sup> V. BENEFIT

By their nature all income support programmes must jeopardise the incentive to work, because they narrow the gap between incomes in and out of a job. Yet it is both economically and morally desirable that work should always remain financially attractive, not least for the lower paid, and that extra effort and special skills should be rewarded. If even small minorities of the workforce are encouraged to draw sickness, unemployment or supplementary benefit when they could be working, when they could earn more by their own efforts, or when they could be training to improve their marketable skills, then social security gradually becomes an engine of impoverishment instead of a means to prevent poverty.

That every increase in the social security budget has to be paid for out of higher taxes is obvious; it is less obvious that every rise in income tax and national insurance contributions (NIC) can reduce still further the advantage of working. Moreover, unless the lower paid are completely exempt from income tax, the gap between incomes in and out of work can be eliminated altogether at the bottom of the earnings scale. But although income maintenance programmes jeopardise the incentive to work, it by no means follows that every erosion of incentive is necessarily the result of benefits being too high. In addition to excessive taxation, high work expenses or income policies or combinations of these and other factors can also eliminate the net financial advantage of working.

Even with low benefits the incentive to work may still be weak if the rewards (after tax) for paid work are also low. The dilemma is best grasped in terms of a pair of scales with, on one side, living standards from idleness (a function of benefit levels), and on the other, living standards from work (a function primarily of wages, direct taxation and work expenses). To preserve work incentives the second scale must always be heavier than the first. The balance will tilt in favour of not working if benefits are raised, or taxes are increased, and markedly so if both occur together. The damaging effects on the labour market are similar whether larger spending on benefits results from higher *rates* of benefit or from *more claimants*, or whether higher taxes are levied to pay for increased social security or other programmes.

#### The balance upset

The danger is that once the balance is upset the process becomes cumulative. Thus the stronger the relative attraction of benefits, the larger the number of claimants, the more the cost and the higher the tax falling on the smaller numbers in employment. The consequences may barely be noticeable at first but gradually the rate of economic growth falls and the tax base is reduced. As workers try to recoup their tax 'losses', there is pressure for increased wages which in turn leads to more unemployment, more spending on benefits and still higher taxes. Resources available for those in genuine need are diminished, and there is a real possibility of generally falling living standards with those least able to protect themselves the worst affected. In the long run nearly everybody suffers.

This study is concerned with the impact of Britain's tax structure and welfare system on incentives. It starts from the premise that men and women work primarily for financial reward. It accuses nobody of being 'workshy' or of 'scrounging'. It does not question the desirability of a generous system of social security. It aims only to demonstrate how the piecemeal growth of the existing system has come to undermine the natural instincts of self-reliance and self-advancement, instead of harnessing them to the common good.

The study is based on the proposition that labour, like all economic goods and services, is not immune from the laws of supply and demand. In the absence of social security, the floor for wages would be the 'minimum living wage', and because of competition from single people it could be less than the 'minimum' appropriate for family men, thereby threatening hardship and poverty. But once government introduces income maintenance for the unemployed, the wages floor is set by social security benefits *plus* a margin to offset the 'disutility' of work. The preservation of that margin is essential if the labour market is to function efficiently.

#### Vacancies for the skilled

If the *net* reward for lower-paid work compares unfavourably with the total package of benefits during unemployment (or if the margin is too small), then job vacancies at the lower end of the earnings scale will be hard to fill and harder still to keep filled.<sup>1</sup> The official unemployment statistics will increase, reflecting partly migration to the black economy, partly the lengthening period of search as workers try to find jobs which are financially more worthwhile,<sup>2</sup> and partly the response by employers to the resulting upward pressures on pay. Inevitably there will be a switch away from labour-intensive towards capital-intensive production. The consequent unemployment is worse for the lower paid and unskilled, while demand for skilled labour remains buoyant. But if, as in Britain, the net rewards for skilled and semi-skilled work are only marginally higher than the net rewards for unskilled work, then vacancies for skilled labour will be difficult to fill.<sup>3</sup> Labour shortages will then co-exist alongside apparently high unemployment.

The situation is complex, but the principle involved is simple. Governments which disregard the basic laws of demand and supply imperil the smooth-running of the whole economy. It is true that people have differing preferences and expectations, even to the extent that some are prepared to work for little or even no extra reward. That does not alter the fundamental truth that every narrowing of the margin between living standards in and out of work further diminishes the effective demand for paid work, and *vice-versa*. Similarly, a narrowing of the differences in net pay from widely different levels of gross earnings reduces the supply of skilled labour, whereas an increase in net differentials would encourage people to acquire fresh skills.

Where it can be shown that the tax/benefit structure is likely to have any of these results, it would surely be better to change the system quickly rather than (as at present) to waste time arguing about the exact number of people affected, or about their likely reactions. The alternatives are either to risk a continuing increase in the 'natural' rate of unemployment<sup>1</sup> to unprecedented dimensions or to make benefits conditional on accepting work available or to move openly to introduce direction of labour.<sup>2</sup>

### Whitehall out of touch

At grass roots level, the anomalies which will be discussed—and their gravity—are not generally disputed. Anecdotal evidence is freely given and is overwhelming. Men and women from all walks of life, including DHSS staff administering the scheme, are exasperated because Whitehall and Westminster are so clearly out of touch. Mrs Thatcher's Government came to power pledged to provide a remedy, but instead matters have become worse. Politics is about priorities. Priority is rightly given to the control of inflation, but the erosion of incentives is a root cause making for wage inflation, of which excessive monetary growth is no more than the *mechanism*. Thus wage inflation, which in the past caused price inflation when monetary policy was permissive, has led to increased unemployment since monetary policy has been tightened up. So long as the pre-disposing causes of inflation/unemployment remain unattended, the remedy will be more costly than it need be. Present high unemployment may drive some of the symptoms temporarily underground, but they will re-emerge if economic expansion resumes.

### 2. SPENDING POWER IN WORK AND OUT OF WORK

The way in which Britain's tax/benefit system undermines work incentives has been criticised for many years. Income tax, national insurance contribution and local authority rates, all increasing faster than the rate of inflation, are charged on earnings below the entitlement levels for supplementary benefit and a host of other means-tested benefits, to produce a structure which narrows differences in living standards not just between incomes in and out of work ('unemployment trap'), but also between workers at different levels of gross earnings ('poverty trap').

<sup>1</sup> 'No takers', a Manpower Services Commission study of hard-to-fill vacancies, *Department of Employment Gazette*, September 1979.

<sup>2</sup> W. W. Daniel, 'Why is high unemployment somehow acceptable?', *New Society* 19 March 1981; also, 'Measuring unemployment and vacancy flow', *D of E Gazette*, June 1980.

<sup>3</sup> *The employment paradox in smaller firms*, Association of Independent Businesses, October 1979.

<sup>1</sup> Defined as the rate of unemployment consistent with a stable rate of inflation.

<sup>2</sup> Moves towards the direction of labour have already been mooted, c.f. Ralph Howell's 'Fight to work' in *Why Work?* [2], and various proposals for youth conscription.

Is this really right?

Adv to  
advocate it?

*repeated*

To analyse this process, new jargon and new analytical techniques have emerged, relying heavily on computer models. Since November 1975, for instance, and in response to persistent parliamentary questions by Ralph Howell, MP [2], the DHSS eventually produced a regular series of Tables<sup>1</sup> comparing *net weekly spending power*\* for different types of families, in work and out of work, and at different levels of earnings. Net spending power is defined as gross earnings, or unemployment benefit, *less* income tax, national insurance contribution, local authority rates, rent or mortgage costs and work expenses, *plus* child benefits, tax refunds (where appropriate) and any means-tested benefits to which there may be entitlement. It is therefore a much wider and more useful concept for measuring work incentives than net incomes which take into account only income tax, national insurance contribution and child benefit.

The Tables from the DHSS Tax/Benefit Model for November each year between 1975 and 1981, and for April 1982, provide the statistical basis for the main analysis in this *Monograph*. Benefits are uprated annually in November, and in April of each year there are usually changes in income tax and national insurance contribution, and also in local authority rents and rates. In theory work incentives are at their best in April, after increases in the personal tax allowances. But in 1981 there was no such increase. And in 1982 the value of the 14 per cent increase in tax allowances was more than offset by the 1 per cent increase in national insurance contribution, and by hefty increases in rent and rates. Improvements in benefits of 11 per cent due in November 1982, in contrast to a forecast increase in gross earnings during 1982-83 of only 7½ per cent, will narrow still further the gap between incomes in and out of work, unless there are big offsetting tax cuts in the 1983 Budget or increases in child benefit. The situation reflects the lack of clear understanding amongst Ministers of the poverty and unemployment traps.

### Net spending power

To compare individual living standards, the 'net spending power' concept has some advantages, but it also has limitations which make it dangerous if misused. Spending power figures have to rest on certain common assumptions, which limit their validity. In real life every person's circumstances differ from all others. Differences in housing costs and in the expenses of going to work can make all the difference to whether employment is or is not worthwhile.<sup>1</sup>

Generally speaking, the DHSS model [1] projects an over-optimistic image of the real world, because it assumes (a) low housing costs based on average rents and rates in local authority housing (but excluding water rates<sup>2</sup>), (b) low work expenses (only £4.40 was allowed in November 1981), and (c) a 100 per cent take-up of means-tested benefits. On the other hand, the model also assumes married couples sharing one wage, whereas about 50 per cent of married women are in paid work.

For all these reasons, and no matter how tempting it may be to generalise from the DHSS figures to try to show, for example, how many people are better off not working, any such estimates are totally misleading. All that the DHSS figures can do is to show whether or not the tax/benefit structure maintains work incentives. They can give a general indication of the level of earnings below which incentives are weakened. They can be used, therefore, to show the direction of change (Graphs 3 and 5). But they cannot be used to estimate even the approximate number of people for whom work is not worthwhile. Nor can they be used to quantify the effects of the tax/benefit structure on the supply and distribution of labour. Both depend on individual circumstances and on each individual's reaction to those circumstances.

## Replacement ratios

Time and again the DHSS has emphasised the dangers of generalising the spending power figures of hypothetical families. But many commentators ignore the warning, and use *replacement ratios* derived from spending power figures in order to estimate the number of people for whom paid work is not worthwhile.

A *replacement ratio* in this context is defined as income received when out of work as a proportion of income from employment (either previous, present or prospective). So long as the figures fed into the calculation relate only to net incomes (i.e. earnings, former earnings or prospective earnings, *less* income tax and national insurance contribution, *plus* child benefit and other non-means-tested benefits), replacement ratios can safely be generalised because the only variables are earnings and family size, which are relatively straightforward to handle. But the comparison of replacement ratios based only on net incomes is meaningless, since it is precisely the variables (unknown but assumed) fed into the net spending power figures which can tilt the balance for or against paid work.

Faced with this dilemma the reaction of many analysts has been to produce *spending power replacement ratios* by feeding in either the DHSS assumptions on housing costs, work expenses and so forth, or their own. In next to no time the reader can be presented with spending power replacement ratios for the entire population, analysed according to duration of unemployment and family characteristics, and followed by detailed estimates of the number of people better off not working than working, and so on.<sup>1</sup>

Macro-calculations of this sort are misleading. Unemployment in Britain, especially long-term unemployment, is disproportionately concentrated on those sections of the population with high spending-power replacement ratios, such as the unskilled, the chronic sick and disabled, people with large families, or those with high fares to work or above-average housing costs. The idea of an 'average replacement ratio' for the whole population, as put forward by Kay, Morris and Warren [5] for the Institute for Fiscal Studies,<sup>2</sup> is either meaningless, being based on average net incomes, or a contradiction in terms because based on 'average' net spending power.

<sup>1</sup> DHSS *Tax/Benefit Model Tables* [1].

<sup>2</sup> Glossary, p. 00.

<sup>1</sup> So can redundancy payments.

<sup>2</sup> An estimated £1.30 for water rates was included for the first time in the April 1982 *Tax Benefit/Model Tables*.

<sup>1</sup> For instance: A. B. Atkinson and J. S. Flemming [3]; Louie Burghes, Child Poverty Action Group [4].

<sup>2</sup> Also J. A. Kay and C. N. Morris [6].

## PART TWO

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**How the Traps are Baited**

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**3. THE FOUR TRAPS****1. THE POVERTY TRAP AND THE POVERTY PLATEAU**

For a significant part of the community, especially families with children and, most of all, lone mothers, pay differentials have become largely meaningless. Out of each extra pound of earnings the wage earner has to pay income tax and national insurance contribution, and *at the same time* entitlement to means-tested benefits is either reduced or withdrawn (rent and rate rebates immediately and the main family benefits within one year). Because of the level of deductions for income tax, national insurance contribution and local authority rates on the one hand, and of means-tested benefits on the other, living standards at the bottom of the earnings scale no longer vary with gross earnings.

*EXAMPLE:* A family with two children living in cheap local authority housing enjoys spending power of about £75 per week<sup>1</sup> if the father earns £120. Another family of similar size and living in similar accommodation, where the father earns just £45 for part-time work, is only £10 per week worse off.

It is important to distinguish between the *poverty trap*, with its high implied marginal 'tax' on each extra pound of earnings, and the *poverty plateau*,<sup>2</sup> meaning the levelling of differences in spending power over a wide range of gross earnings.

**(a) The poverty trap**

The poverty trap exists because earnings from work, even earnings below the entitlement levels for means-tested benefits, are subject to income tax, national insurance contributions and local authority rates. For some reason never divulged, the discussion in Whitehall too easily overlooks deductions resulting from the poverty trap which come to less than 50 pence in the pound. But for the purposes of this *Monograph* the poverty trap exists *wherever income tax and national insurance contribution are charged on incomes below the entitlement levels for means-tested benefits*, regardless of what marginal tax rate is implied. By the end of 1979, nearly 1 million adults in full-time work were in this position.<sup>1</sup>

The mechanism of the poverty trap is shown in Table 1. Rent and rate rebates are withdrawn at between 23 and 33 pence in the pound, and are in theory adjustable as soon as earnings change. The figures refer to April 1982.

**More nearly means less**

Graph 1 (a) illustrates the high 'implied' marginal 'tax' rates to which single-wage married couples drawing housing rebates are liable as a result of this system. On earnings between £55 and £70 they lose about 71 pence out of each extra pound earned, and on earnings between £71 and £105 they lose about 61 pence from each extra pound. Because of the poverty trap the loss of spending power is proportionately more severe than for people paying marginal tax on annual incomes over £30,000.

B

## Children and the poverty trap

Families with children may be entitled to Family Income Supplement (FIS) as well as housing benefits. In November 1981, the FIS prescribed amount for a two-child family was £82 or about 65 per cent of average male manual earnings. FIS is phased out by 50 pence for each extra pound earned, and loss of entitlement to FIS also means loss of statutory entitlement to free school meals (FSM). Theoretically, any family in receipt of FIS stands to lose more than 100 per cent of each extra pound earned. Each additional child raises by £8 the earnings ceiling (or prescribed amount) below which there is entitlement to FIS, and consequently the earnings level at which the family can escape the poverty trap.

**Table 1:**

### How the Poverty Trap works, October 1982

	<i>Deduction from each Extra £ Earned</i>	
	%	
1. <i>Income tax</i> : from each £ earned above £30.10 for single people and £47.02 for single-wage married couples—	30.00	
2. <i>National insurance contribution</i> : on earnings between £29.50 and £220 a week, employed earner's rate (not contracted out) charged on total earnings up to £220 upper earnings limit—	8.75	
3. <i>Rent and rate rebates</i> :		
(a) From each extra £ of income below the need allowance:	rent rebate rate rebate	25.00 8.00
		71.75
(b) From each extra £ of income above the needs allowance:	rent rebate rate rebate	17.00 6.00
		61.75
<i>All the above Deductions occur pari passu with Increases in Earnings</i>		
4. <i>Family income supplement (FIS)</i> —	50.00	
	£	
5. <i>Free school meals (FSM)</i> , estimated weekly value—	2.25	
6. <i>Free welfare milk (FWM)</i> , estimated weekly value—	1.40	

*Note:* FIS is awarded for a year at a time, and carries automatic entitlement to free school meals and free welfare milk. Under the Education Act 1980 the statutory requirement for local education authorities to provide free school meals for children from low-income families was limited to children in families receiving FIS or supplementary benefit. LEA's have discretionary powers to extend this provision to other children and in October 1981 about 73% of LEA's in England were doing so. But the parent cannot claim it as of right. Free welfare milk is phased out with FIS or at £2.50 above SB level, except for handicapped children or under-fives at approved nursery schools, play groups and so forth.

<sup>1</sup> Unless otherwise stated, all income figures are weekly. This chapter refers throughout to people at work.

<sup>2</sup> The term 'poverty plateau' was first used by Professor Jonathan Bradshaw in *New Society*, 9 October 1980 [7].

## GRAPH 1 (a), (b), (c)

Because FIS is awarded for a year at a time, the worst effects of the poverty trap are generally avoided in practice. The chances are that the ceiling for FIS will have been lifted before a family's FIS award comes up for renewal, so that many families escape without loss of FIS. Graph 1(b) shows the theoretical position for a family with two children aged 4 and 6. The fact remains that there is nothing in law to prevent people from being worse off by earning more, and sometimes they are.

Graph 1(c) illustrates the position for a three-child family if there is no immediate adjustment of FIS, free welfare milk or free school meals. It may be argued that this is misleading because only a minority of families have three or more children. But about one-third of all children live in families with three or more, and it is wrong to overlook the effects of the system on so large a minority.

Families caught in the poverty trap must either break or bend the law if they want to raise their living standards. Hence to their children disrespect for the law becomes a normal part of life. How can we expect young people brought up in such circumstances to be law-abiding if during their childhood such qualities are penalised by marginal tax rates of 60 to 70 per cent on incomes ranging from as little as £50 up to £125?

The figures in Graph 1(c) show the marginal net income retained from each extra pound earned, assuming continued payment of FIS at the rate applicable to earnings £1 lower in every case. Housing benefits are adjusted immediately, and because FIS counts as part of weekly income for the assessment of housing benefits, the latter are withdrawn twice as fast as in Graph 1(b). The net effect is to produce marginal net incomes similar to those for single-wage couples without children (Graph 1(a)), but where there are children the poverty trap is much wider. For the three-child family it stretches up to £130 a week, even assuming low housing costs.

In real life it is probable that earnings would increase by more than £1 at a time, perhaps by £5 or even £10. Despite the continued payment of FIS at the higher rate applicable to the lower earnings, marginal net incomes remain extremely low, because of higher taxes and lower social benefits. And if the effects of higher rents, rates and work expenses are also taken into account the gain is even smaller. Sometimes it is a net loss.

*EXAMPLE: Because of the poverty trap a married man with non-earning wife and three children, whose earnings increased from £80 to £85 between November 1981 and the present time, has less spending power now than last November, before taking account of price inflation, and even assuming that FIS continues to be paid at the rate applicable to earnings of £80. Increases in national insurance contribution, in rent, rates and fares to work, have more than offset the increased wage and the 14 per cent increase in tax allowances last April:*

Spending power from £80 in November 1981:	<b>£78·08<sup>1</sup></b>
Spending power from £85 in October 1982:	<b>£75·83 (FIS adjusted)</b>
	<b>£77·76 (no adjustment of FIS)<sup>1</sup></b>



**EXAMPLE:** *Because of the poverty trap* a married man with non-earning wife and two children, whose earnings increased from £105 to £115 during the same period had an increase in spending power of only £1.36, after taking account of taxation, housing and fares to work. The implied marginal tax rate is 86 per cent.

Spending power from £105 in November 1981:	£71.70 <sup>1</sup>
Spending power from £115 in October 1982:	£73.06 <sup>1</sup>

**EXAMPLE:** *Because of the poverty trap* an agricultural worker (with a non-earning wife and two small children) and who earned the median wage for agricultural workers throughout 1980 and 1981, had only £2 more to spend out of an additional £5 in November 1981. After taking into account inflation at 12 per cent, he was worse off by 9 per cent in real terms, as shown in Table 2.

**Table 2:**

**Net Weekly Spending Power of an agricultural worker, November 1980 and November 1981**

	November 1980	November 1981
	£	£
Median earnings of agricultural workers	83	88
Net weekly spending power, married man with two children aged 4 and 6	65	67

<sup>1</sup> DHSS Tax/Benefit Model Tables [1], November 1981 and April 1982.

All the above examples are derived from the DHSS Tax/Benefit Model Tables [1], and use the same assumptions regarding housing costs and fares to work.

Politicians play down the reality of the poverty trap. It is said that the concept rests on a faulty 'snapshot' analysis which allegedly disregards the effects of pay awards, benefit upratings and increases in tax allowances. But this view is not substantiated by the facts.

### (b) The poverty plateau

The virtual disappearance of differences in spending power over a wide range of earnings is not seriously disputed. Within that range people find themselves on the poverty 'plateau': extra effort and extra skills are no longer rewarded. For people with low earnings potential it often pays to work part-time locally and claim maximum housing rebates rather than travel to full-time work.

*EXAMPLE:* A single woman may be better off working part-time in a local pub or restaurant than in a full-time job: working 20 hours a week at £1.75 an hour, her net spending power is over £33, compared with £00 for the full-time job, as shown in Table 3.

**Table 3:**

#### Part-time versus Full-time Working, October 1982

<i>Part-time earnings</i>	£35.00	<i>Full-time earnings</i>	£70.00 <sup>1</sup>
<i>PLUS</i>		<i>PLUS</i>	
rent rebate	11.90		4.54
rate rebate	3.95		1.48
free lunches	5.00		—
<i>LESS</i>		<i>LESS</i>	
income tax	1.47		11.97
NIC	3.06		6.13
rent	12.50		12.50
rates	5.50		5.50
work expenses	—		10.00
<b>NET WEEKLY SPENDING POWER</b>	<b>33.32</b>		<b>29.92</b>

<sup>1</sup> Cf. estimated average female manual earnings in April 82: £78.35.

Source: DHSS [1], April 1982.

As income increase the wage-earner loses much more in income tax and national insurance contribution, and gains less from means-tested benefits. The flattening effect of this pincer operation on living standards is illustrated in Graph 2.

GRAPH 2

**The theoretical 'escape points'**

The theoretical 'escape points' from the poverty plateau and the poverty trap (i.e. where this pincer movement no longer operates) is often above average manual earnings. Using the DHSS Tax/Benefit Model assumptions and defining the escape point as that level of earnings at which there is no further entitlement to means-tested benefits (and at which net spending power increases by 62 pence in the pound, i.e. the 'standard rate' including national insurance contribution), the picture is as shown in Table 4.

**Table 4:**

**Escape points from the poverty trap and the poverty plateau, April 1982**

	<i>£ per week</i>	<i>% average male manual earnings<sup>1</sup></i>
Single man	97	75
Married couple	115	89
Married couple + 1 child	126	98
Married couple + 2 children	133	130
Married couple + 3 children	138	107
Married couple + 4 children	143	111

	<i>£ per week</i>	<i>% average female manual earnings<sup>2</sup></i>
Single woman	97	124
Lone mother + 1 child	123	158
Lone mother + 2 children	130	167

<sup>1</sup> Estimated at £129 in April 1982.

<sup>2</sup> Estimated at £78 in April 1982.

Source: DHSS [1], April 1982.

Since 1979 the position has been deteriorating.

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Following the Labour Government's tax cuts in 1978, the escape points from the poverty trap and poverty plateau fell to a lower percentage of average manual earnings than at any time since 1975 (when the DHSS Tax/Benefit Model Tables were first produced). In the last three years this improvement has been lost.

### GRAPH 3

These examples indicate only 'theoretical' escape points. In real life they will be higher for some people and lower for others, e.g. they will be higher if housing costs exceed those assumed in the DHSS Model Tables.<sup>1</sup> They will also be higher for families with student children who are likely to be affected by the 14 per cent withdrawal rate of mandatory student awards.

*For all these reasons it is wrong to suppose that the so-called poverty trap affects only the lower paid.* The nomenclature is misleading. It would be more appropriate to describe it as a general *anti-effort trap*, because it discourages people who by normal standards are not regarded as poor.

## 2. THE UNEMPLOYMENT TRAP

If people are encouraged to stay out of work for longer than is strictly necessary, to work intermittently or not at all because a return to work would either reduce their spending power or bring a *net gain of less than £10 a week*, they fall into the unemployment trap. A net reward of £10 for a full week's work is surely the absolute minimum necessary to offset what economists call the disutilities (disadvantages) of work. A few people might be satisfied with less, but most would expect more, especially those who can supplement social benefits with cash earned in the underground economy.

Throughout most of the European Community, but especially in Britain, the relative gains from working have become too small. The wage earner is often only marginally better off by working, particularly when absence from work can be ascribed to sickness. In Britain, there is no guiding principle in the provision of benefits to ensure that people are better off when they are in paid work than when they are sick or unemployed. There is no national minimum wage, and the supplementary benefit minimum income guarantee scheme specifically *excludes* anybody in full-time work, even though, for many, net wages may be less than benefits.<sup>1</sup>

### **Income maintenance in training**

But that is not all. Anyone on a training or re-training course outside the Training Opportunities Scheme is automatically ineligible for social security, because he or she is not 'available for work'. With the exception of a minority generally below the age of 21, who are allowed to draw supplementary benefit provided they study for *less than 21 hours a week*, any effort at organised self-help is penalised by loss of entitlement to benefit. And even this concession was in danger of being withdrawn early in 1982. Other unemployed people, offered jobs in industry subject to an initial unpaid training period, also forfeit the right to social security and sometimes therefore turn down job offers.

British income maintenance schemes during training contrast bleakly with arrangements elsewhere. In Germany, every adult has a statutory right to paid training and re-training, and the training allowance is more valuable than unemployment benefit. Unemployment is regarded as a situation of last resort. Every young person has the right to a guaranteed minimum income during further education or vocational training, but not to the dole. In France, there is a system of continuous training, with maintenance of income, financed partly by the state and partly by employers.

D

As with the poverty trap, the extent to which any person may be caught in the unemployment trap in Britain depends on earnings potential, family size/characteristics, housing costs and tenure, and work expenses. Families with many children are generally the worst affected, especially if they depend on the single wage of a lone mother. And for the very poor, the borderlines between the unemployment trap, the poverty trap and plain fraud have become so nebulous that it is hard to know when to blame the system and when to blame its victims. Many people are unable to extricate themselves from debt, let alone raise their living standards, except by resort to the black economy.

### Recent changes

The unemployment trap has changed significantly since the present Government took office, but a lasting solution is still nowhere in sight. Earnings-related supplement has been abolished, the real value of the standard rate of unemployment benefit has been cut by 5 per cent, the real value of the unemployment benefit child additions has been cut by even more, unemployed people aged 60 or over are now excluded from unemployment benefit if they have more than a minimal occupational pension, and since July 1982 benefits paid to the unemployed, including supplementary benefit but excluding all child additions, have been assessed for income tax.

Taxation of short-term benefits (e.g. sickness, maternity) is long overdue, and will immediately widen the gap in spending power between incomes in and out of work. Income tax refunds will remain<sup>1</sup> but will be smaller and will not be paid until either the end of the tax year or until the unemployed person has returned to work.

<sup>1</sup> There is no upper income ceiling to eligibility for housing rebates, nor any ceiling to reckonable housing costs, although the maximum rebates are limited to £30 for rent rebates (£35 in the GLC area), and £5.50 for rate rebates (£9.00 in the GLC area).

<sup>1</sup> It may be thought that restoration of the former 'Wage Stop' would remedy the situation, but this is not the case. The wage stop was designed to preserve equity in incentives. It did not require a man to get less when he was in work. It only ensured that an unemployed person's income was no larger than it would have been in full-time work. The wage stop rule was abolished in 1975. It had proved difficult to administer, involving a large element of local discretion. Those principally affected were families with children, especially large families, and by 1973 a disproportionate number of families from Northern Ireland. Writing in the 1975 Annual Report, the Supplementary Benefits Commission recorded the equity problem occasioned by the removal of the wage stop, but concluded that

'the real solution seems to lie not in reducing benefit to these families but in a generous level of family support, a raising of tax thresholds for low wage earners and higher levels of earnings'. (para. 33).

This conclusion remains valid.

Further reading on the Wage Stop:

Ministry of Social Security, *Administration of the Wage Stop*, HMSO, 1967 (reprinted 1972); Laurie Elks, *The Wage Stop*, Child Poverty Action Group, 1974; SBC *Annual Report 1975*, Cmnd. 6615, HMSO.

<sup>1</sup> Further discussion of the new tax refunds is in Part 4, pp. 00-00.

The long-term value of the other changes is much more doubtful, although the full effects are still hard to judge. One immediate result is to increase reliance on supplementary benefits, because national insurance unemployment benefit is now worth less than the supplementary benefit scale rates. Thus *the unemployment trap has been replaced by the supplementary benefit trap*. Short-term savings in public expenditure are likely to be more than offset in the long-term by the insidious effects on self-reliance and self-esteem from a system of social security for the unemployed based largely on means-tested supplementary benefit. The slightly 'abated' (i.e. reduced) value of NI unemployment benefit is derisory by international standards.

The social insurance principle lies in ruins. Entitlement to benefit during unemployment no longer bears any close relation to either the individual's contribution record or personal effort. The regular worker and the regular saver are penalised. The only people who do not lose are the feckless spenders and the chronic drones. Moreover, the value of the total supplementary benefit package is so well concealed and so variable that the full impact on incentives of income maintenance based on supplementary benefit will be extremely hard to monitor.

### The supplementary benefit package

The supplementary benefit scale rates may appear to be low especially for wives and children, and also for the long-term unemployed, who are restricted to the ordinary SB scale rates. Paradoxically, however, the *relative* value of the total supplementary benefit package compared to spending power from low wages is disproportionately high, and is increasing. *The supplementary benefits system has become Britain's main growth area.*

This is the result of a combination of factors:

- (1) Until 5 July 1982, supplementary benefits were not taxed. Even now only the basic adult supplementary benefit rates for the unemployed are taxable.<sup>1</sup> Children's SB and other payments remain tax-free.
- (2) Children's SB rates (available only to the unemployed) are age-related and much higher than child benefits available to parents at work.
- (3) Housing costs are payable in full with SB (except mortgage capital repayments but including mortgage interest), and a 'non-householder housing addition' of £2.55 is payable to single non-householders on top of the scale rate.
- (4) SB is a passport giving automatic entitlement to other benefits, for example, free school meals, free welfare milk, free optical and dental care, and free prescriptions.
- (5) In calculating SB certain income is disregarded, e.g.:
  - any expenses in association with part-time work
  - net earnings up to £4 per week per spouse
  - dependent children's earnings without upper limit
  - fostering allowances in full, and two-thirds of earnings from child-minding and lodgers
  - tax refunds in most cases
  - capital, and income from capital, up to £2,000 (£2,500 from November 1982).

(6) Extra payments for additional requirements may be claimed,

e.g.:

- heating additions
- laundry costs in certain cases
- fares to hospital
- hire purchase in certain cases.

(7) Extra single payments for exceptional needs may be claimed,

e.g.:

- furniture and household equipment
- house and garden expenses
- clothing and footwear.

Because of what is available under items (4) to (7) above it would be misleading to compare net spending power from work with the *basic* SB scale rates, or even with the basic scale rates plus heating addition for under-fives, free school meals and free welfare milk. It has often been noted that most supplementary benefit claimants live at a level somewhere between 120 and 140 per cent of the scale rates.<sup>1</sup> For this reason, living standards or spending power on supplementary benefit in this study are assumed to be *120 per cent of the SB scale rates* unless otherwise stated.

### 3. THE SUPPLEMENTARY BENEFIT TRAP

The supplementary benefit trap as it affects a two-child family dependent on the single wage of the father is illustrated by Graph 4. The DHSS prefers to concentrate on figures applicable to families with young children, on the ground that most children are under 11 years of age. Statistically this is doubtless correct. But children also grow up and, as they do so, the SB rates for them increase. Consequently, it becomes progressively more difficult for parents with low earnings potential to find work which provides more in spending power than they can obtain by remaining on SB.

#### GRAPH 4

<sup>1</sup> Only that part which is equal to the NI unemployment benefit is taxable, e.g. SB rate for a married couple is £37.75 of which £36.40 (N.I. unemployment benefit rate) is taxable.

<sup>1</sup> For example, Supplementary Benefits Commission [8], paras. 4-15.

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As always the wage necessary for the recipient to be £10 a week better off by working depends on individual circumstances. The graphs assume average local authority housing costs throughout. They therefore underestimate the disincentive effect for many people, especially mortgagees with higher costs. Even so, and assuming weekly work expenses of £10 and two children of 11 and 13, gross earnings of nearly £150 a week are necessary in order to provide a living standard about £10 better than SB.

The most difficult decisions face a low-income family when the children reach 16. If the children remain in full-time education and the father is in work, child support is limited to child benefit at £5.25, unless the father earns less than £82, in which case he can draw family income supplement. But assuming one child of 16 and one of 18, both at school, the family's SB scale rate plus free school meals alone adds up to £75.15, and 120 per cent of the SB scale rate is £85.<sup>1</sup> If the children leave school and register for work, each is almost immediately entitled to SB in his or her own right, at £18.60 for the 18-year-old and £14.30 for the 16-year-old, plus the 'non-householder's housing addition' of £2.55.

It is not surprising that unemployment has reached 3 million, nor that it is disproportionately concentrated among the young. Tinkering with the situation by postponing a young person's entitlement to SB until the end of the first school holidays after leaving school, and then cutting off child benefit as well if work is commenced before the end of the holidays, causes much unnecessary hardship<sup>2</sup> and invites abuse. Jobs today are seldom lasting. How is the mother expected to judge whether or not a given job is likely to prove casual or regular? The system requires radical reform. All we are doing at the moment is driving people into the black economy.

Table 5 shows the approximate levels of gross weekly earnings necessary in October 1982 to produce a £10 gap between spending power in work and 120 per cent of the SB scale rates for all the main family types, including young single people. The weekly earnings necessary to make work financially attractive would have to be even higher if the claimants were owner-occupiers in the early stages of a mortgage, since interest payments could well be £40 or £50 a week. In Table 5 housing costs are derived from

**Table 5:**  
**The Supplementary Benefit Trap, October 1982**

Family type	Approximate levels of gross weekly earnings necessary to produce a gap of £10 between spending power in work and on SB		£ per week Tax refund <sup>1</sup>
	120% SB	£	
1. Single householder	27.90		2.06
work expenses £5 (£10)		78 (91)	
2. Single non-householder			
(a) Aged 18 or over	22.32		3.45
work expenses £5 (£10)		47 (55)	
(b) Aged 16-17	17.16		4.74
work expenses £5 (£10)		38 (46)	
3. Married couple	45.30		2.78
work expenses £5 (£10)		99 (112)	
4. Married couple + 2 children aged 4 and 6	74.26		2.78
work expenses £5 (£10)		118 (£32)	
5. Married couple + 4 children aged 3, 8, 11 and 16	95.70		2.78
work expenses £5 (£10)		158 (166)	



<sup>1</sup> Refundable on return to work or at end of the tax year (Part 4, pp. 00-00).

Source: DHSS Tax/Benefit Model Tables, April 1982, and own calculations.

Assumptions: as in DHSS Tax/Benefit Model Tables for housing, otherwise as shown.

Note: Estimated average manual earnings in April 1982:

men about £129 per week.

women about £78 per week.

the DHSS Tax/Benefit Model Tables. The £10 assumption for weekly work expenses is reckoned to be much more realistic than the DHSS estimate of £5, which takes no account of expenses other than fares, e.g. trade union dues, meals away from home, extra clothing and superannuation. The following examples are derived from Table 5:

**EXAMPLE 1:** A school leaver needs earnings of £46 in order to be £10 per week better off by working:

	£		£
Earnings	46.00	Supplementary Benefit	14.30
PLUS		PLUS	
	—	estimated 20% additions	2.86
LESS		LESS	
income tax	4.77		—
NIC	4.02		—
work expenses	10.00		—
	—		—
NET WEEKLY SPENDING			
POWER	27.21		17.16

**EXAMPLE 2:** A single householder needs earnings of £91 (with work expenses of £10 per week), and £78 (with work expenses of £5) in order to be £10 per week better off by working:

	£		£
Earnings	91.00	Supplementary Benefit	23.25
PLUS		PLUS	
rent rebate	0.97	rent rebate	12.50
rate rebate	0.22	rate rebate	5.50
		estimated 20% additions	4.65
LESS		LESS	
income tax	18.27		—
NIC	7.96		—
rent	12.50	rent	12.50
rates	5.50	rates	5.50
work expenses (say)	10.00		—
	—		—
NET WEEKLY SPENDING			
POWER	37.96		27.90

<sup>1</sup> Additionally, the children can take Saturday jobs without affecting the parents' SB entitlement.

<sup>2</sup> Because it affects the family's entitlement to housing rebates.

**EXAMPLE 3:** A married man with non-earning wife and two small children needs earnings of £132 (with work expenses of £10) and £118 (with work expenses of £5) in order to be £10 per week better off by working:

	£		£
Earnings	132.00	Supplementary Benefit	43.05
<i>PLUS</i>		<i>PLUS</i>	
child benefit	10.50	child benefit	10.50
		rent rebate	14.60
		rate rebate	6.40
		estimated 20% additions	10.71
<i>LESS</i>		<i>LESS</i>	
income tax	24.59		—
NIC	11.55		—
rent	14.60	rent	14.60
rates	6.40	rates	6.40
work expenses (say)	10.00		—
<b>NET WEEKLY SPENDING POWER</b>	<b>74.46</b>		<b>64.26</b>

The earnings levels necessary to make work financially attractive are close to *average* manual earnings, estimated at £129 for men and £78 for women in April 1982. At three-quarters of average manual earnings the gap between incomes in and out of work quickly fades away except for single men. *Table 6 shows that, for most people, a wage at three-quarters average manual earnings is hardly worth working for when supplementary benefit would provide 80 to 90 per cent as much spending power, and in some cases more.*

**Table 6:**  
**Spending power gap between low pay and supplementary benefit, April 1982**

	<i>Spending power gap between 120% of the SB scale rates and net spending power at three-quarters average manual earnings</i>	
	£	£
	<i>Work expenses</i>	<i>Work expenses</i>
	£5	£10
Single male householder	17	12
Single female householder	3	-2
Married couple	10	5
Married couple + 2 children	-6	-11
Married couple + 4 children	-8	-13

*Source:* Derived from DHSS Tax/Benefit Model, April 1982.

*The gap between living standards on supplementary benefit and living standards on low pay has been decreasing steadily since 1979. The curves in Graph 5 show a deterioration in the supplementary benefit trap since 1979 similar to the worsening of the poverty trap depicted in Graph 3. All the figures are taken straight from the DHSS Tax/Benefit Model Tables for each November since 1975, which allow only low estimates for work expenses.*

#### GRAPH 5

#### 4. THE LONE PARENT TRAP

In 1979 there were about 860,000 one-parent families in Britain, 100,000 lone fathers and 760,000 lone mothers. Of the latter, 110,000 were widows. Altogether one-parent families accounted for about 10 per cent of the nation's children.

The lot of most lone parents other than widows is a complex blend of the unemployment and poverty traps, which I shall call the *lone parent trap*. National insurance benefits for widows are not means-tested, so widowed mothers can add to their benefits by going out to work, even if most earn wages well below the poverty trap 'escape points'. But for lone parents who are not widows, non-means-tested provision is limited to child benefit and one-parent benefit, at £5.25 per child and £3.30 per family respectively in November 1981, and £5.85 and £3.65 respectively from November 1982.

Lone mothers and their children are among the most vulnerable members of society. The women have lower earnings potential than men; many have to pay child-minding costs in addition to travel and the other expenses normally associated with earning a living. For these families the effects of the unemployment and poverty traps are so interwoven that it is hard to distinguish the one from the other. But the net result is indisputably to encourage long-term dependence on supplementary benefit and to discourage self-reliance, because the reward mechanism no longer operates. The only way for most of these mothers to escape the lone parent trap is by working in the black economy.

A lone parent is not required to register for work in order to get supplementary benefit, and can choose whether to work full-time and (probably) qualify for family income supplement, or to work less than 30 hours and receive supplementary benefit. Since November 1980 the first £4 of net weekly earnings plus half of any net earnings between £4 and £20 is entirely disregarded when calculating SB entitlement (this regulation replaced the previous £6 disregard). Additionally, lone parents are now eligible for the long-term rates of supplementary benefit after one year instead of two.

#### GRAPH 6

RESEARCH MONOGRAPH 37—11—

The effect on the work incentive is dramatic, and is illustrated in Graph 6. Assuming work expenses of £20 a week (a figure which takes into account child-minding costs<sup>1</sup>), cheap local authority housing and no entitlement to free school meals above the FIS ceilings, it makes virtually no difference in terms of spending power whether a lone mother with two small children eventually earns £120 for a full week's work or £20 working part-time. And gross earnings of about £140 a week are necessary to make her £10 a week better off by working full-time. With older children, with more children, or with housing costs higher than those assumed, the position would be worse. But even £140 is 170 per cent of estimated female manual average earnings in April 1982.

The figures are tabulated in Table 7. Net spending power on supplementary benefit is almost certainly underestimated because no account is taken of other 'disregards' or of payments for additional requirements referred to in the previous section (p. 00).

Certainly there is a strong case for making it possible for lone parents to stay at home and look after their children, especially those below school age. But it is hard to justify a system which actively discourages self-help until the child is 16, and which gives the mother little choice except between poverty or the black economy. As soon as the child or children leave school, the mother is suddenly left with no income support at all, and is required to make a difficult re-adjustment. By that time, after so many years away from the labour market, it is harder for her to find and keep a steady job.

**Table 7:**  
**The lone parent trap, October 1982**

*Lone mother with 2 children aged 4 and 6. Rent £14.60, rates £6.40, work expenses £20.00, child benefit £10.50, one-parent benefit £3.30.*

(1) WORKING FULL-TIME

Gross weekly earnings	Tax	NIC	FIS	Rent rebate	Rate rebate	FSM	FWM	Net weekly Spending Power (NWSP)
£	£	£	£	£	£	£	£	£
40	—	3.50	20.00	13.20	4.48	2.25	1.40	50.63
50	0.89	4.38	16.00	11.70	4.00	2.25	1.40	52.88
60	3.89	5.25	11.00	10.45	3.60	2.25	1.40	52.36
70	6.89	6.13	6.00	9.20	3.20	2.25	1.40	51.83
80	9.89	7.00	1.00	8.21	2.86	2.25	1.40	51.63
90	12.89	7.87	—	6.68	2.32	—	—	51.04
100	15.89	8.75	—	4.98	1.72	—	—	54.85
110	18.89	9.63	—	3.28	1.12	—	—	58.68
120	21.89	10.50	—	1.58	0.52	—	—	62.51
130	24.89	11.38	—	—	—	—	—	66.53
140	27.89	12.25	—	—	—	—	—	72.66

(2) WORKING PART-TIME: Rent and rates paid in full\*

Net earnings	SA		FSM	FWM	NWSP	
	ordinary rate	long-term rate			ordinary SA	long-term SA
4	43.45	49.80	2.25	1.40	48.35	54.70
6	42.45	48.80	2.25	1.40	49.35	55.70
8	41.45	47.80	2.25	1.40	50.35	56.70
10	40.45	46.80	2.25	1.40	51.35	57.70
12	39.45	45.80	2.25	1.40	52.35	58.70
14	38.45	44.80	2.25	1.40	53.35	59.70
16	37.45	43.80	2.25	1.40	54.35	60.70
18	36.45	42.80	2.25	1.40	55.35	61.70
20	35.45	41.80	2.25	1.40	56.35	62.70
25	30.45	36.80	2.25	1.40	56.25	62.70

\*The calculation is as follows: net earnings + child benefit + one-parent benefit + supplementary allowance + free school meals + free welfare milk less rent and rates = net weekly spending power. For part-time work with SA, work expenses are taken fully into account to reach reckonable net earnings.

Assumption: No free school meals (FSM) above FIS levels.

Note: Estimated average female manual earnings in April 1982 were £78.00.

Sources: DHSS Tax/Benefit Model Tables, April 1982.  
Hansard, 15 January 1981, col. 619-22, updated.

<sup>1</sup> The National Council for One Parent Families estimated child-minding costs to be between £15 and £20 a week in London in Autumn 1981.

TABLE 7

Lone mother with 2 children aged 4 and 6. Rent £14.60, rates £6.40, work expenses £20.00, child benefit £10.50, one-parent benefit £3.30.

## PART THREE

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## Scale of the Problem and Priority for Change

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### 4. THE EFFECTS OF WORK DISINCENTIVES

It is relatively easy to show that the British tax/benefit structure reduces the incentive to work, and that for people caught in the poverty trap or the supplementary benefit trap the situation is getting worse, not better. But it is difficult to estimate the number of people affected, and the practical effects of disincentives on the labour market.

These are distinct aspects of the problem and it is important not to confuse them. Even if one knew how many people were better off not working than working, for instance, it would be incorrect to assume that the same number of people actually 'choose' not to work.

The evidence suggests that in practice many people do work for very little financial gain, some because they do not realise how small the gain is, some because they value the longer-term benefits of remaining in the labour force, and some because they like to work. But this does not mean to say that they are not angry and frustrated. Often it is the unemployed with the highest replacement ratios who most actively seek work.<sup>1</sup> Many are offended by the idea that their labour is worth less than social security, so they go on looking in the hope that a better offer may be made next week. But it can be months before they find a job at a wage rate they consider acceptable. And the unemployment statistics reflect this delay.

#### Growth of black economy and low pay

The growth of the black economy and the increased prevalence of moonlighting are clear indicators of grass-roots reaction against the system. Estimates of the size of the black economy now range between 4 and 15 per cent of Gross Domestic Product, and even the 'official' Inland Revenue estimate<sup>1</sup> of between 6 and 8 per cent amounts to around £15 billion a year.

There is no official estimate of the number of people better off or only marginally worse off by not working than when in paid work. The Government view is, while not exactly denying the existence of a problem, nevertheless to insist that the numbers affected are statistically insignificant—in other words, to give the problem low priority for change. Thus in its evidence to the Treasury and Civil Service Committee Sub-Committee 'Enquiry into the structure of personal income taxation and income support' [1], the Government did not attempt to estimate the numbers involved in the unemployment trap, saying only that 'the vast majority of people are better off in work than out of work'. Better off by how much? In a recent letter to the *Financial Times*, Mr Frank Field estimated that 'millions of workers have a net income from work which is not much above what they could claim on social security.'<sup>2</sup>

The Institute for Fiscal Studies (IFS) has estimated that in November 1981 about 9 per cent of the working population had replacement ratios on supplementary benefit which were 80 per cent or more of their in-work incomes, and that about 20 per cent of the working population had replacement ratios on SB of 70 per cent or more.<sup>3</sup> These estimates bring up to date a simulation carried out by the IFS in 1980 whereby the incomes of the working population (as reported in the 1978 Family Expenditure Survey) were compared with entitlement to benefit when unemployed. Unfortunately neither the details of the original tax/benefit model nor of the updating have been published. But it is fairly certain that living standards on SB were underestimated, being based on the SB scale rates only; and that no account was taken of work expenses,<sup>1</sup> so that the study is not helpful.

As for numbers of people affected by the poverty trap, the latest DHSS estimate (based on analysis of the 1979 Family Expenditure Survey) of 470,000 families in Great Britain who stood to gain less than 60 pence out of each extra pound earned<sup>2</sup> as opposed to their usual definition of 50 pence or 25 pence, is ludicrously low, being less even than the number of lone mothers in the country, most of whom are inextricably caught up in both the unemployment and poverty traps.

The Government's estimates are low partly because of low take-up of means-tested benefits (only 50 per cent for FIS), partly because of problems and disagreements about definition,<sup>3</sup> and partly because of confusion between the poverty and unemployment traps. These are closely interwoven, and without a doubt a high proportion of the unemployed would be caught in the poverty trap if they were in paid work. The same DHSS analysis of the 1979 Family Expenditure Survey shows that 800,000 adults of working age in Great Britain (i.e. approaching 1 million if Northern Ireland is also taken into account) were dependent on incomes with implied marginal tax rates of over 40 per cent. By now (August 1982) the figures must be higher still.

<sup>1</sup> DHSS Cohort Study [10].

<sup>2</sup> Sir Lawrence Airey in evidence to the Treasury and Civil Service Committee II, November 1981.

<sup>3</sup> *Financial Times*, 20 May 1982.

<sup>4</sup> J. A. Kay and C. N. Morris [6].

<sup>5</sup> Kay, Morris and Warren [5].

<sup>6</sup> Letter to Sir Brandon Rhys Williams, Bt., MP, from the DHSS dated 29 June 1982.

<sup>7</sup> For instance: (i) Disagreement about the implied marginal tax rates which constitute the poverty trap. Some estimates take 50 per cent or more, some 75 per cent and some 100 per cent. Implied marginal tax rates for lower wage earners of between 40 per cent and 50 per cent are generally regarded as harmless (too low to matter), although they produce a tax structure which is regressive. (ii) References to families instead of adults affected by the poverty and unemployment traps, based on the outdated notion that wives do not participate in the labour market.

Taking a broad definition of the unemployment and poverty traps, but still relying largely on data from the Family Expenditure Survey, it is possible to make a rough 'snapshot' estimate of the number of adults likely to be discouraged from helping themselves, simply by adding together the number of adults of working age dependent on supplementary benefit and the number of adults dependent on incomes either below SB levels or not more than 140 per cent of SB levels during the period of the survey. All SB claimants except lone parents (who have a tapered 'disregard') face 100 per cent implied marginal tax rates if they return to work, and a substantial proportion would be low paid if they were at work. Additionally, most of those earning below SB levels or within 140 per cent of SB levels would be entitled to means-tested benefits either directly or through their spouses. Indeed, since means-tested benefits usually cut out at above 140 per cent of SB levels, an estimate of this sort must exclude some working people who are technically within range of the poverty trap as defined in this study. Even so, *the total estimated number of adults at risk from the poverty and/or unemployment traps in 1979 comes to over 4½ million or about 17 per cent of the workforce at that time* (Table 8).

By now, of course, these figures are out of date. Unemployment in 1979 was 1.3 million compared with over 3 million in July 1982. And the escape-points from the poverty trap are higher today in relation to average earnings. *The 1982 figure is unlikely to be less than 5½ million (i.e. over 20 per cent of the workforce) at risk from the poverty and/or unemployment traps.*

#### Limitations of sample surveys

In the discussion on the incidence and impact on the labour market of the poverty and unemployment traps, increasing importance is attached to empirical evidence based on survey data.

**Table 8:**  
**Number of Adults at risk from the Poverty and Unemployment Traps, 1979**

*Total estimated number of adults under pensionable age dependent either on supplementary benefit or on incomes which were (a) below SB levels, or (b) not more than 40 per cent above SB levels.*

(Thousands)

(1) Excluding people who had been sick or unemployed for less than 13 weeks at the time of the Family Expenditure Survey:	
	<i>Adults affected</i>
	<i>000's</i>
Incomes below SB	690
SB claimants	1,110
Incomes at or above SB, but less than 40% above	1,510
	<hr/>
	Total 3,310
(2) Estimated number of adults dependent on low incomes for less than 13 weeks at the time of survey:	
Dependent on SB for less than 13 weeks	260
Dependent on NI unemployment benefit for less than 13 weeks	430
Dependent on NI sickness benefit for less than 13 weeks	510
	<hr/>
	Total 1,250
	<hr/>
	TOTAL OF (1) + (2) 4,560



Sources: (1) DHSS, *Low income families 1979*, June 1982. (2) My own calculations.

Note: The DHSS estimates of low-income families are derived from Family Expenditure Survey data, but the computer programme has been written to exclude families where the head is off work for less than 13 weeks. The figures therefore underestimate the total number of people dependent on low incomes at the time of the survey, and also the number of people at risk from the unemployment and poverty traps. Thus the figures in (1) above are the figures published by the DHSS. The figures in (2) are an attempt to fill in the gap, and are necessarily very approximate. They are based on the average number of claimants in receipt of the benefits listed for less than 13 weeks during 1979. Some duplication is therefore possible, but also some omissions.

One of the disadvantages of such evidence is the long delay before the results are published. For instance, the official poverty trap figures based on analysis of the 1979 Family Expenditure Survey did not become available until June 1982. Such delays are especially to be deplored when dealing with a disease which feeds on itself. Trying to estimate the number of people at risk from the unemployment and/or poverty traps, and hence the priority for change, is like trying to estimate the 'natural' or 'minimum sustainable' rate of unemployment<sup>1</sup> from old data. It is not feasible. Each increase in the number of registered unemployed requires higher taxation of those at work, which reduces still further the margin of incentive between incomes in and out of work, further extends the period of job search necessary to find a financially acceptable job, and thus pushes up the 'natural' rate of unemployment a further notch.

Evidence from sample surveys provides useful information on the characteristics of the unemployed, and on work attitudes. But it has limitations. People constrained by the system to bend or break the rules are unlikely to say so officially. A truly random sample of the unemployed is therefore unattainable. And yet those potential respondents who turn out to be unavailable, or who prefer not to co-operate, almost certainly include the people most at risk.

Despite both of these difficulties the available survey data shows a clear correlation between the pattern of unemployment in Britain and the nature of our tax/benefit system. Amongst its worst features are a high rate of taxation at low levels of pay, no tax relief against work expenses, no proper system of either training or income support for the 16-19 age group, dependency additions for non-earning wives and a fragmented system of child support, with much higher benefits payable for the children of parents who are not working than for the children of parents in paid employment. All of these factors are reflected in the findings.

<sup>1</sup> Total interviews as a proportion of the names originally selected for the MSC 1979 study of the long-term unemployed came to only 38 per cent. Of the original sample, 41 per cent declined or refused to take part, and 18 per cent could not be traced (though presumably drawing benefit).

TABLE 8

Total estimated number of adults under pensionable age dependent either on supplementary benefit or on incomes which were (a) below SB levels, or (b) not more than 40% above SB levels.

W. W. Daniel's second survey of unemployed people, *Where are they now?* [13], showed below-average 'activity rates' among the wives of unemployed men, and a high incidence of short-term and recurrent unemployment among young people. The correlation between high incidence of unemployment and low earnings was emphasised by Layard, Piachaud and Stewart, using data from the 1975 General Household Survey, in their evidence to the Royal Commission on the Distribution of Income and Wealth [14]. The DHSS *Cohort Study of the Unemployed* [10] (a nationally representative sample of men who became unemployed in 1978) showed that 25 per cent had incomes out of work equal to at least 82 per cent of their previous net in work incomes, and confirmed that a disproportionate percentage of the unemployed are young, unmarried and unskilled or only semi-skilled. People interviewed had earnings far below the national average—about half in the bottom fifth of the earnings distribution. Only one-third of the wives were earning compared with over half for the population as a whole. And a high proportion had recent experience of unemployment, half in the previous year and three-quarters during the previous five years.<sup>1</sup>

Figures quoted in the Supplementary Benefits Commission final annual report<sup>2</sup> demonstrate the higher incidence of long-term unemployment in Britain compared with the rest of the European Community, and an above-average incidence of unemployment experienced by family men. A recent comparative study by a French government agency notes Britain's relatively low short-term replacement ratios for the unemployed and relatively high long-term replacement ratios compared with France, Germany, Sweden and Canada; also the disincentive impact of our dependency additions for wives and children.<sup>3</sup> The *1980 Family Expenditure Survey* shows 38 per cent more children in the families of unemployed manual workers than in those of employed manual workers, whereas for non-manual workers the unemployed families had fewer children than those in paid work.<sup>1</sup>

#### **Evidence of survey of long-term unemployed**

In 1979 the Manpower Services Commission carried out a survey amongst nearly 2,000 long-term unemployed people<sup>2</sup> [12]. At that time there were about 337,000 long-term unemployed, just over one-quarter of all the registered unemployed. By January 1982 there were 905,000 long-term unemployed, nearly 30 per cent of the total, and over half of the registered unemployed at that time had been out of work for more than 26 weeks. Not surprisingly, the MSC figures showed a disproportionate number of older workers and disabled people. They also showed that nearly three-quarters of the sample had been in semi-skilled or unskilled jobs. Only a minority had any formal educational or vocational qualifications, and 77 per cent had no formal qualifications whatsoever. Even among the 16-24 age-group, 73 per cent had no qualifications. Inadequate pay, travelling distances and heavy work were quoted as the main reasons for not taking up job vacancies. Almost one-quarter of those questioned regarded low pay as the dominant factor. Many compared their benefits with the likely pay from available jobs and

<sup>1</sup> 'felt the extra' was inadequate compensation for the rigours of a job and the expenses incurred by travel and extra food'.<sup>1</sup>

Despite the formal evidence, despite the crescendo of anecdotal evidence at local level, despite recognition by the former SBC Chairman, Professor David Donnison, that 'large numbers [of people] get little more when working than if unemployed and public concern about incentives is acute',<sup>2</sup> the official Whitehall view is to recognise the existence of a theoretical problem but to minimise its relevance and its effects in practice. This is the advice regularly passed on to Cabinet Minister.

Every possible device is used to play down the gravity of the situation by those who oppose change. The poverty trap is said to be an illusion based on faulty 'snapshot' analysis which does not take into account that (some) benefits are granted for a year at a time.<sup>1</sup> The poverty trap is repeatedly said to be the unavoidable consequence of attempts by caring governments to relieve poverty.<sup>2</sup> The level of unemployment benefit is said to have no significant effect on the duration of unemployment. And reports from the grass roots are brushed aside as mere 'anecdotal evidence'. Half an hour at any pub should be long enough to discover what really goes on, yet it seems from his 1982 Budget speech that the Chancellor still accepts the official line. Speaking about unemployment he said:

"The key point is this. Somewhere in *the gap* between the levels of income which we pay to those out of work and the earnings enjoyed by those who have a job are rates of pay which those now out of work would be glad to take if they had a chance. But convention and narrowness of vision prevent those bargains being struck." (Italics added.)

For the lower paid, for family men earning much more, and for almost anyone with a mortgage, the question must be: 'What gap?'

<sup>1</sup> D of E *Gazette*, August 1980, January 1981 and June 1982.

<sup>2</sup> Cmnd. 8035 [15], Table 5.1.

<sup>3</sup> 'Note sur l'indemnisation du chômage en France et à l'étranger', CERC, July 1982.

<sup>1</sup> *Family Expenditure Survey*, 1980, Table 26c.

<sup>2</sup> Defined as unemployed for more than one year.

<sup>1</sup> MSC [12], para. 5.6.

<sup>2</sup> David Donnison, 'A Radical Strategy to Help the Poor', *New Society*, 29 October 1981.

<sup>1</sup> Only FIS and its passport benefits are awarded for a year at a time. In theory a person drawing housing rebates can be prosecuted under the Theft Act if he or she fails to notify increased income immediately. In most cases the means-tested benefits would not be necessary if tax were less, i.e. the poverty is 'tax induced'. (Part 4, pp. 00-00.)

<sup>2</sup> COPY TO FOLLOW

<sup>3</sup> *Hansard*, 9 March 1982, col. 73.

**PART FOUR**

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**Causes of the Problem**

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**5. HAPHAZARD POLICY ON INCOME REDISTRIBUTION**

It is wrong to assume that the progressive erosion of work incentives since 1948 is due simply to increases in benefit rates, and that the obvious remedy therefore is to cut benefits. The situation is more complex. Benefit rates have risen substantially, even after allowing for inflation. But so have earnings. For work incentives what matters is, *first*, those changes which alter the ratios between net incomes from benefits and net incomes from work, and, *secondly*, those which alter the ratios in spending power (a whole complex of factors including travel to work and means-tested benefits) that together determine relative living standards.

There is no single explanation for all that has occurred. Five factors, taken together, show *how it came about*, but there is only *one underlying reason*. The former may be summarised as follows.

- (i) A social insurance system based on flat-rate benefits with additions for dependents; and a minimum income guarantee through the supplementary benefits system which does not apply to those who are in paid work.
- (ii) Greatly increased direct taxation of earned incomes, especially the earnings of the lower paid of families with children, due to failure to up-rate the personal tax allowances in line with benefits, to the abolition of earned income relief and the reduced rates of tax, and to increases in NIC.
- (iii) The exemption from taxation of unemployment benefit (until recently), sickness benefit and supplementary benefit, and the cumulative nature of PAYE.
- (iv) An inadequate and fragmented system of child support.
- (v) Increased and increasing reliance on means-tested benefits.

For an explanation of the reason *why* we must examine the curiously haphazard and subjective approach to income redistribution which characterises British society, and which is reflected at Westminster and in Whitehall. Without a more objective and consistent or comprehensive approach, policy-making will remain incoherent and will often produce results opposite to those intended.

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## 6. THE BENEFIT SYSTEM

The traditional British system of social insurance based on flat-rate benefits with additions for dependents is altogether different to the Bismarck-inspired earnings-related systems which dominate social insurance elsewhere in the European Community.<sup>1</sup> The continental style earnings-related benefit is not a supplement paid in addition to flat-rate benefit, but a fixed proportion of previous or normal earnings, with no variation according to family size. So long as the proportion is not set too high and is related to earnings net of tax, or is itself taxable, it is relatively easy to preserve the necessary incentive to work.

The disadvantage of earnings-related social insurance is that for the lower paid the benefit can be insufficient to prevent poverty. Hence the trend towards supplementing social insurance by some sort of minimum income guarantee: 'social assistance' in Germany and the Netherlands, 'public assistance' in Denmark, the 'minimex' in Belgium, the 'revenu minimum garanti' and the 'vieillesse minimum' in France.

### Disadvantage of flat-rate benefits

The disadvantage of Britain's flat-rate benefit system is that the more effective protection provided at the bottom of the earnings scale is possible only at the expense of the majority of wage and salary earners. This is because it is impossible to pay *flat-rate* benefits to the majority in amounts which are worthwhile without damaging incentives amongst the lower paid. Flat-rate benefits by their nature represent a much higher percentage of former earnings for low wage earners than for those on the average wage. And the British dependency additions inevitably represent a larger percentage of previous earnings for family men than for single people. In November 1981, for instance, the standard rate of unemployment benefit represented only 19 per cent of previous gross earnings for a single person who had been earning £120 a week, but 38 per cent if he had previously earned £60. For a married man with two children the two cases represented 31½ per cent and 63 per cent respectively.

Graph 7 shows that the unemployment trap has not widened because of increases in either flat-rate unemployment benefit or supplementary benefit since 1948, both of which bear approximately the same relationship to average earnings today as then, having actually *fallen* since 1965.

### GRAPH 7

<sup>1</sup> Except in Ireland.

But the introduction in 1967 of earnings-related supplement, superimposed on flat-rate insurance benefits, compounded all the difficulties inherent in our system. By continental standards the ratio, even at its high point in 1971, was never generous to the better-off wage-earner. But for low-wage families with children it used to have to be 'extinguished' by the 85 per cent ceiling rule, which prevented flat-rate benefit plus Earnings Related Supplement from exceeding 85 per cent of previous reckonable earnings.

Earnings-related supplement was abolished in 1981, but the difficulties associated with flat-rate insurance benefit and with the supplementary benefits system remain. These difficulties are made far worse because people who are in full-time work are excluded from supplementary benefit. *For each unemployed person, but not for people in work, therefore, the supplementary benefits system acts as a de facto minimum wage*, all the more unpredictable and damaging because it varies with the number and age of the claimant's dependents. The result is a constant upward pressure on wages. At the same time the unemployment statistics are inflated by the longer periods of job search.

The British supplementary benefits system is virtually unique. Elsewhere it is usual for a minimum income guarantee to be operated on the basis of proof of need alone, although some countries tilt the mechanism in favour of the *working* poor. In Germany, for instance, self-help is encouraged by adding between 30 and 50 per cent to the social aid entitlement of anybody in paid work. And in France the '*revenu minimum garanti*' (introduced in 1981 for families with children) is reduced to a nominal or basic rate for families whose incomes are less than the national minimum wage, in other words where neither parent is working. In the Netherlands the criterion for social assistance is need, and social assistance rates are set at a given percentage of the national minimum wage, although the gap is too small to preserve incentives.

## 7. INCOME TAX AND NATIONAL INSURANCE CONTRIBUTION

It was shown in the previous section that the ratio between flat-rate unemployment benefit/supplementary benefit and *gross* male manual average earnings has not altered significantly since 1948. But when we examine the ratio between flat-rate unemployment benefit/supplementary benefit and *net* earnings the picture is transformed. The difference is due to income tax reaching further down the income scale, and to increased national insurance contribution on earned income.

Graph 8 shows how tax on earnings has grown since 1950, and how the impact has shifted at the expense of single people at the bottom of the earnings scale and family men earning slightly more. The figures refer to male manual earnings and take account of family allowance and child benefit as well as income tax and NIC. Between 1948 and 1961 the NIC was charged at a flat rate, which is the reason for the strange-looking curves for families with children (Graph 8 (3) and (4)).

**EXAMPLE 1:** In 1981 a single person earning half the national average paid 25 per cent of his earnings in income tax and national insurance contribution. That was more than a single person with earnings *twice* the national average would have paid in 1950.

**EXAMPLE 2:** The tax burden for married men earning three-quarters of the national average increased from 6.5 per cent in 1950 to 25 per cent in 1981.

**EXAMPLE 3:** The typical two-child family on average earnings paid just under 4 per cent of total income (earnings plus family allowance) in national insurance contribution and income tax in 1950 and 26 per cent in 1981.

#### GRAPH 8

**EXAMPLE 4:** A family with four children on average earnings paid 3 per cent of its income in national insurance contribution in 1950 but *no* income tax. By 1981 total tax liability amounted to 24 per cent of earnings plus child benefit—an eight-fold increase.

The impact of these sharp increases in the tax burden on the incentive margin between net incomes in and out of work is demonstrated in Table 9, which shows *net income 'replacement ratios'*, i.e. they compare the supplementary benefit scale rates with gross earnings less income tax and NIC, plus family allowance/child benefit where appropriate. The trend is indisputable and the figures can safely be generalised because they do not involve hypothetical assumptions regarding work expenses or housing costs for individual families. For the same reason, the picture presented is also incomplete. Table 15 (p. 95) shows the estimated change in *spending power 'replacement ratios'* over the same period.

**Table 9:**  
**Net Income Replacement Ratios, 1948-1981**

*National assistance/supplementary benefit scale rates as percentages of average earnings less income tax and national insurance contribution, plus family allowance/child benefit as appropriate.*

Year	(1) Average Male Manual Earnings			
	Single person	Married couple	Married couple + 2 children*	Married couple + 4 children**
	%	%	%	%
1948	21	32	41	55
1956	20	32	40	53
1964	22	35	42	56
1972	24	38	48	64
1980	27	41	54	72
1981	27	42	54	73
	(2) Two-Thirds Average Male Manual Earnings			
1948	29	46	62	80
1956	29	45	60	76
1964	32	49	62	82
1972	35	53	66	84
1980	38	57	72	94
	39	58	73	95

\* Two children aged 4 and 6.

\*\*Four children aged 4, 6, 12 and 16.

Notes: The SB scale rates are for November each year, and include the post-November 1980 heating addition for children under five.

Earnings figures are for October in each year. The 1981 figures are provisional.

Sources: *Social Security Statistics*, 1981.

*The Taxes Acts*, Vol. I, 1980.

*DHSS Abstract of Statistics* for index of retail prices, average earnings, social security benefits and contributions.

Heavier taxation of people on low incomes is the single most important reason for the erosion of work incentives since 1948. It is attributable to a variety of causes which may be summarised as follows:

- (i) Falling tax thresholds in relation to average earnings.
- (ii) Much higher starting *rate* of income tax and abolition of reduced rates of tax.
- (iii) Abolition of earned-income relief.
- (iv) Steady increase in the cost to the worker of earnings-related national insurance contribution since 1961.

#### (i) Tax thresholds

The tax threshold has been defined by the Inland Revenue<sup>1</sup> as the level of earnings which may be received before liability to tax arises. For single people and married couples, therefore, the tax threshold is currently equal to the single person's and married man's tax allowance;<sup>1</sup> until 1973 the tax threshold was more ample because of earned income relief.



### Tax allowances and the incentive margin

It is generally supposed that as long as tax allowances are moved up in line with inflation (the Rooker-Wise amendment)<sup>2</sup> the incentive margin between incomes in and out of work will remain constant. But this is not necessarily the case. From the point of view of incentive, what matters is that tax allowances should be moved up in line with benefits. Any government which increases tax allowances by less than it improves social security benefits for the unemployed puts work incentives at risk, and invites wage demands. In order to make good the extra tax, and to maintain the gap between incomes in and out of work, wages must increase disproportionately. In Britain earnings have increased faster than prices throughout most of the post-war period. And *benefits* have kept up with earnings. Tax allowances have kept ahead of prices most of the time, but have lagged far behind earnings. That is the cause of the trouble.

The choice for policy is either to link benefits *and* tax allowances to earnings, or index both to prices. The first option is very expensive. The second would gradually reduce the relative living standards of the unemployed, and would probably be thought politically unacceptable in the long-term. No wonder that governments prefer to fudge the issue. The effect has been a dramatic fall in the relative living standards of the lower-paid, as can be judged from Graph 9.

**EXAMPLE 1:** In 1950-51 the tax threshold for a single person was 37 per cent of average male manual earnings. By 1981-82 it had fallen to 21 per cent.

The single person's tax allowance in November 1981 was £26.44 a week. In order to restore the 1950-51 ratio with average earnings it would have had to be raised to nearly £47.

**EXAMPLE 2:** In 1950-51 the tax threshold for a married man with a wife who did not work was 60 per cent of average male manual earnings. By November 1981 the married man's tax allowance of £41.25 was worth only 33 per cent of estimated average male manual earnings and would have had to be raised to nearly £76 in order to restore the earlier position.

### GRAPH 9

The distinction between tax thresholds and tax break-even points in Graph 9 is an important one. The *tax break-even point* is defined by the Inland Revenue [17] as the earnings level at which *net* liability to tax arises. The main complication in constructing a comparable statistical series of the sort illustrated in Graph 9 concerns families with children, because of the replacement of taxable family allowance and child tax allowances by tax-free child benefit. Although a family with children now starts to pay income tax at a relatively lower level of income than in earlier years, it is not necessarily worse off. Thus, assuming basic-rate tax of 30 per cent, a tax allowance of £100 would be equivalent to a child benefit of £30, but the tax threshold is reduced by £70. The concept of the break-even point is intended to overcome this difficulty.

<sup>1</sup> *Inland Revenue Statistics*, [17], 1980, Section 2A.

<sup>2</sup> For two-wage-earning married couples, it is the married man's tax allowance plus the wife's earning income allowance, the latter being equal to a single person's tax allowance.

<sup>3</sup> COPY TO FOLLOW

**EXAMPLE 3:** In 1950-51 the tax break-even point for a married man with a non-earning wife and two children was 119 per cent of average male manual earnings. By November 1981 it had been cut to 57 per cent. In order to restore the 1950-51 position, and assuming the married man's tax allowance of £76 (Example 2) and retention of tax free child benefit, the latter would have had to be increased to about £11 per child in November 1981, instead of £5.25.

It will be noted from Graph 9 that tax break-even points rose slightly after the transition to child benefit in 1977-79, but have since fallen. Tax thresholds for single people and married couples rose in 1972-73 and again in 1977-78, but have since fallen.

It is axiomatic that, to avoid either the unemployment trap or the poverty trap, tax thresholds must be pushed up well clear of poverty levels (defined as the income levels below which there is entitlement to supplementary or other means-tested benefits). The unemployment trap is an inevitable consequence of taxing incomes from work below or only marginally higher than SB levels. The poverty trap would fade away if tax thresholds were raised above entitlement levels for family income supplement and housing rebates.

It was not always so. The increasing value of the supplementary benefit scale rates in relation to tax thresholds is shown in Table 10. The small improvement in the figures for 1982 is due to last April's 14 per cent increase in tax allowances compared with the 11 per cent increase in supplementary benefit which will take effect in November 1982. Once again the SB figures in the Table exclude housing allowance and other additions, and therefore overestimate the gap between supplementary benefit and tax thresholds. And once again it is necessary to use the tax break-even point for families with children, in order to keep the figures on a comparable basis.

In practice, of course, families are not aware of tax break-even points. What concerns them is what is called their *tax-free income* [17], namely earnings plus child support, which may be received before liability to tax arises. Unlike tax thresholds for single people and married couples, tax-free incomes for families with children are below the supplementary benefit scale rates. Unfortunately it is not possible to show tax-free incomes on a comparable statistical basis before and after the transition to child benefit in 1977-79.

**Table 10:**  
**Tax Thresholds and Supplementary Benefit levels, 1950-82**

*National assistance/supplementary benefit scale rates as percentages of:*

	Tax thresholds		Tax break-even points		Tax-free incomes	
	Single person	Married couple	Married couples with:		Married couples with:	
			2 children*	4 children**	2 children*	4 children**
	%	%	%	%	%	%
1950	46	49	37	32	—	—
1965	70	75	54	46	—	—
1980	81	84	73	76	102	128
1981	88	92	74	76	108	133
1982	85	89	73	75	105	131

\* Two children aged 4 and 8.

\*\* Four children aged 3, 4, 12 and 16.

Note: SB rates for November of each year.

Tax figures for the whole of each financial year divided by 52.

Sources: *Social Security Statistics*, 1980, Table 34-01, and *Hansard*, 10 March 1982, col. 862.

*Inland Revenue Statistics*, 1980, 2A, 1981 Appendix C, and *Hansard*, 30 March 1982, col. 100.

The menace of lower tax thresholds is in part the result of a system of income tax relief based on tax allowances, and of a child support system based on tax-free child benefits. The Chancellor

is boxed in. He cannot lift the lower paid out of tax, or increase child benefit, without helping every income taxpayer and every parent in the country. Whereas the age allowance is confined to benefits for retired people on relatively low incomes, being phased out on incomes above £6,700, all the other allowances represent tax-free income the whole way up the income scale, as does tax relief on mortgage interest and other secondary reliefs. Moreover, each £100 by which the Chancellor increases a tax allowance costs the Exchequer twice as much for taxpayers with marginal rates of 60 per cent than for taxpayers paying tax at the standard rate.

### **(ii) Tax rates**

At the same time as tax thresholds have been falling, the starting rate of tax has been nudging inexorably upwards. Throughout most of the 1950s and until 1963 there were three reduced rates of income tax—stepping stones before the standard rate was reached—and these sub-standard starting rates varied between 9, 12½ and 15 per cent of taxable income. Between 1963-64 and 1969-70 there were two reduced rates. Since then, with the exception of a 25 per cent band on the first £750 of taxable income during 1978-79 and 1979-80, the British taxpayer has been subject to a starting rate (which is also the basic or standard rate) of between 30 and 41 per cent. Britain's wide range of reserves subject to basic rate tax is unique in the European Community, and the 30 per cent starting rate is one of the highest in the world.

High marginal rates of tax are another price we have to pay for our system of income tax reliefs which produces (by international standards) comparatively low average rates. In 1980-81 the income tax base was reduced by over 50 per cent on account of the various tax allowances, reliefs and exemptions relevant to the household sector.<sup>1</sup> The *average* rate of income tax on the total income of all households was only 13 per cent. In such circumstances it is not surprising that high *marginal* tax rates are necessary. It seems unlikely that a solution will be found to the unemployment and poverty traps without radical reform of the tax system.

### **(iii) Earned-income relief and work expenses**

Although in Britain the expense of travelling to work has never been deductible for tax, earned-income relief at two-ninths of taxable income continued until 1973. Britain is now the only member state of the European Community where there is no tax relief for the costs regularly associated with paid employment. Most countries allow earned income relief *and* some sort of allowance for work expenses. In Denmark and Germany there is no upper limit to the costs of travel to work which may be set against tax. In Belgium and the Netherlands it is commonplace for employers to pay the costs of their employees' journey to work.

The escalation of travel costs since the oil price explosion in the mid-1970s has become a further significant factor, tilting the balance against paid work. Every fare increase, every increase in petrol price or duty, narrows still further the incentive margin between incomes in and out of work. For the lower-paid the situation is especially serious because of changing travelling habits. People are having to travel further to find jobs. The local jobs which were once available no longer exist, and public transport has shrunk. Some young people have to turn down job vacancies because public transport is either non-existent or too expensive and they do not have their own means of transport.

<sup>1</sup> Parliamentary Written Answer, *Hansard*, 17 February 1982, col. 150.

**(iv) National Insurance contribution**

Originally charged at a flat rate of 25 pence per week, national insurance contribution became partially earnings-related in 1961, and wholly so in 1975. At 25 pence the original contribution was regressive but it represented only 3.7 per cent of average male manual earnings. Today the non-contracted-out rate is 8.75 per cent, having increased by over two percentage points since the present Conservative Government took office. Further regular increases in NIC will be necessary if only to pay for the 1975 additional pension scheme.

There is a danger that increases in the NIC will take the place of increases in the rate of income tax, even though it has a bigger disincentive effect than income tax. This is because, firstly, the NIC is restricted to earned incomes. Secondly, it is more regressive than income tax because of the contribution ceiling or upper earnings limit, which means that people earning less than £220 a week pay a higher combined rate of income tax plus NIC on each extra pound earned than people immediately above the upper earnings limit.

**8. TAX-FREE BENEFITS AND CUMULATIVE PAYE**

The distortions produced under PAYE by the tax refund procedure are well documented and not seriously disputed. In November 1981 tax refunds could add about £8 to the weekly spending power of an unemployed single person, and about £12 per week to the spending power of a married couple.

Under the National Insurance Act of 1946 all national insurance benefits were intended to be taxable, but it quickly became evident that the cumulative nature of PAYE made it difficult to tax short-term benefits and the Finance Act of 1949 made them exempt. The cumulative nature of PAYE has meant that anybody who became sick or unemployed was entitled not only to tax-free benefits, but also to refunds of tax paid on incomes earned earlier in the same tax year since earnings turned out to be lower for the whole year than the tax system had anticipated. The weekly value of the refund was about equal to 1/52 of each beneficiary's annual tax allowance, i.e. 30 per cent of £41.25 (£12.38) for married couples with one wage-earner in November 1981, and 30 per cent of £26.44 (£7.93) for single people, assuming there was no liability to a higher-rate tax.

These refunds were payable until all tax previously paid in the same financial year had been paid back. But from the recipient's point of view, the potential advantages of the system, were not limited to those who became sick or unemployed during the latter half of the tax year. A tax-free social security income at the start of the financial year also meant reduced tax liability when work was eventually resumed.

In sickness, the position has been especially anomalous, due to the large and growing number of people whose sick pay was made up to the amount of their usual earnings. Since the part of sick pay equal to sickness benefit was free of tax, tax refunds became payable, creating a double bonus effect. For people earning above £8,000 a year the financial gain from sickness could easily exceed £100 a month.<sup>1</sup>

It is important to emphasise that the *cumulative nature* of PAYE is responsible both for the administrative difficulties associated with taxing benefits and for the tax refunds anomaly. Britain is by no means the only country where benefits are tax-free, although several have recently started to tax benefits. But elsewhere tax-free benefits do not pose quite the same problem, because the tax adjustments are not made until the *end* of each financial year.

It is Mrs Thatcher's Government's intention to bring most welfare benefits into tax. Benefits to the unemployed and to people on strike have counted as part of taxable income from 5 July 1982. Payments for short-term sickness (up to eight weeks) will be taxed from 6 April 1983 under the proposed statutory sick pay scheme. The date on which other short-term benefits (sickness benefit, maternity allowance, injury benefit and unemployability supplement) and invalidity benefit will be taxed is not yet known. Child benefit and the child additions payable with supplementary benefit and national insurance benefits will remain tax-free. So will the additions payable with supplementary benefit (the heating addition and the non-householder's housing addition, for example) and various other national insurance benefits (war pensions, mobility allowance and invalidity allowance).

The proposed changes will substantially reduce the value of tax refunds. Nor will they be payable on the same regular basis as in the past. They will be repayable either when the taxpayer returns to work or at the end of the tax year.

<sup>1</sup> *Hansard*, 11 February 1980, col. 504:

It would nevertheless be wrong to assume that the problem of tax refunds has been solved. *Tax refunds will have to continue so long as PAYE remains cumulative.* The initial amounts will be small, but only for so long as tax thresholds continue at their present historically low levels. For basic-rate taxpayers the new refund will be 30 per cent of the difference between the rate of taxable benefit and the weekly tax allowance. If tax thresholds were raised above supplementary benefit levels including housing costs, which is a necessary precondition for the restoration of work incentives, it follows that the new tax refunds could then become quite large. The figures in column (c) of Table 11 assume tax thresholds which approximately restore the 1950-51 ratios to average male manual earnings. The figures are hypothetical but they show little real change has so far been made.

**Table 11:**  
**Value of Tax Refunds**

	Approximate weekly value of tax refunds		
	(a) Nov. 81	(b) July 82	(c) Assuming 1950-51 tax thresholds*
	£	£	£
Single householder	7.93	2.06	7.13
Single non-householder aged:			
over 18	7.93	3.45	8.62
16-17	7.93	4.74	9.81
Married couple with or without children	12.38	2.78	11.48

\*Assuming that tax thresholds were restored to the 1950-51 ratios to average male manual earnings, i.e. £47 for a single person and £76 for a single-wage married couple. (See page 9.)

As long as PAYE remains cumulative, it is much more difficult to operate reduced rates of tax, or to introduce gently progressive tax rates, as is normal practice outside Britain. And yet abolition of Britain's exceptionally wide band of tax incomes subject to the standard-rate tax, and a change to gently progressive tax rates starting as perhaps 5 or 10 per cent would help greatly to restore work incentives at the bottom of the earnings scale. The cost to the Exchequer would depend on the width of each 'band' as well as on the tax rates.

Cumulative PAYE systems exist in Britain and Ireland only. When introduced during the Second World War the advantages may well have outweighed the disadvantages. But today taxpayers in many countries pay their tax on a regular weekly or monthly basis without having to endure the complexities of cumulative PAYE, and without any undue upheavals at the end of the tax year. Published tax tables enables each taxpayer to check his or her own tax liability. Minor adjustments due to unemployment, sickness or high work expenses are made at the end of the tax year.

By increasing the number of benefits subject to tax (and many will remain tax-free), the scale of the tax refund problem will be reduced. But the central issue remains. A lasting solution to the unemployment and poverty traps is unlikely as long as cumulative PAYE continues and some benefit payments remain tax-free. The only logical exception to the latter rule is child benefit which is paid at the same rate whether or not the parent is in paid work, and which replaces former child tax allowances as well as former family allowance.

### 9. CHILD SUPPORT

Judged by its impact on incentives to work, Britain's child support system is, for several reasons, fatally flawed.

*First*, the level of support varies according to the employment circumstances of the parents and is worth less for the children of working parents than for the children of parents who are unemployed or sick. This narrows the gap between incomes in and out of work and is only partially offset by family income supplement.

*Secondly*, the value of child benefit is so small that it has to be supplemented by means-tested benefits, if only to offset the unemployment-trap effects mentioned above. This, in turn, produces a poverty-trap effect.

*Thirdly*, for young people between full-time compulsory school and regular, full-time employment, there is no properly integrated system of income maintenance at all. But there is a clear financial advantage in registering for work as soon as possible, no matter how unqualified.

Graph 10 shows how the levels of child support vary according to parental circumstance. Child benefit is a tax-free, universal benefit paid to all parents regardless of their income and whether or not they are in work. From the incentive aspect it is an ideal benefit. *National insurance child additions* are paid for the children of parents who are sick or unemployed (short-term additions), and for the children of widows, retirement and invalidity pensioners (long-term additions), subject to all the usual NI provisos.

#### GRAPH 10

Supplementary benefit (formerly National Assistance) was scheduled to be the minimum income guarantee for people who through no fault of their own could not be self-supporting. It is means-tested. But because the children's SB rates are so much more generous than child benefit and the short-term NI child additions, supplementary benefit is increasingly the main benefit for unemployed families. Free school meals, free welfare milk and a heating 'addition' for families with children under five are automatically available under SB, but not with NI benefit, nor for families in paid work.

#### A fragmented system

Britain's fragmented child support system is virtually unique, a hangover from the social security system which existed before World War II. Writing in 1942 Sir William Beveridge warned against it:

'The gap between income during earning and during interruption of earnings should be as large as possible for every man. It cannot be kept large for men with families, except either by making benefit in unemployment and disability inadequate, or by giving allowances for children in time of earning and non-earning alike.'<sup>1</sup>

Beveridge recommended age-related, taxable family allowances averaging (in those days) 40 pence per week, payable for each child after the first in working families and also the first child of parents receiving social security. The exclusion from entitlement to family allowance of the first child in working families was from the start much criticised, and was finally changed by the Child Benefit Act of 1975. The chief continuing difficulty has arisen because the war-time Coalition Government legislated in 1944 for family allowance at 25 pence instead of 40 pence, which made necessary the continued payment of additions for children under the new 1948 national insurance benefits, and of children's rates with the new national assistance scheme. In other words, despite the Beveridge Report, a fault which bedevilled the pre-war social security system was carried over into the post-war welfare state.

Moreover, instead of gradually closing the gap between child support for parents in and parents out of work, the gap became wider. Whereas child support for unemployed families has maintained its 1948 parity with average earnings, child support for working families has fallen sharply, as is shown in Graph 11. By the questionable device of holding down the real value of national insurance child additions, the gap between child benefit and child support on short-term unemployment and sickness benefit will soon be closed. But the gap between child benefit and children's supplementary benefit rates continues to widen. For unemployed families supplementary benefit is the benefit of the future, due to the abolition of earnings-related supplement and the November 1980 5 per cent abatement in the indexed value of insurance benefits.

#### **Effect of FIS in extending the poverty plateau**

Family income supplement was introduced in 1971 to raise the net incomes of lower-paid families. But despite recent increases, the prescribed amounts below which FIS is payable are so low<sup>1</sup> that only a tiny minority of two-parent families has ever been eligible. For large families and for families with older children, family income supplement is in any case worth less than supplementary benefit. The main effect of FIS is to reduce net differentials and to extend the poverty plateau—and, occasionally, when entitlement runs out soon after a pay increase, to produce marginal tax rates of over 100 per cent.

#### **GRAPH 11**

<sup>1</sup> *Social Insurance and Allied Services*, Cmd. 6404, 1942, para. 412.

<sup>1</sup> £82 for a two-child family in November 1981, or about 65 per cent of estimated average male manual earnings at that time.



Since April 1979 child benefit has been the only form of non-means-tested support available to working families. But the *rate* of child benefit was based on a consolidation of former family allowance and child tax allowances at a time when both were at an all-time low (Graph 9). A cash injection during 1978 produced a temporary but short-lived improvement. Today, in return for child benefit of £5.25 a week (£5.85 from November 1982), which is less than the cost to most families of sending their child to a state school, parents are taxed on the same basis as childless couples. And because they require larger accommodation, they generally contribute rather more in local authority rates. Consequently, families dependent on the single wage of the father often pay more in *net* tax (after taking into account child benefit) than two-wage couples without children but with the same joint earnings. And they also pay more in tax than pensioner couples with the same gross incomes, as shown in Table 12.

**Table 12:**  
**Net Incomes with and without Children, 1981-82**

<i>£ per week</i>			
<i>Gross weekly incomes</i>	<i>Net weekly incomes</i>		
<i>Earnings or state pension + occupational pension</i>	<i>Two-wage childless married couple*</i>	<i>Single-wage married couple + 2 children**</i>	<i>Pensioner couple</i>
<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
80	62	72	73
100	75	84	87
120	87	97	99
130	100	109	110
160	112	121	124

\* Assumes that three-quarters of the earnings are earned by the husband.

\*\*Including child benefit.

### **Illogical support 'system' for 16-19 age group**

When children reach 16 years of age their welfare status depends on whether or not they remain in full-time education and on whether their further education is academically- or vocationally-orientated.

Sixteen-year-olds staying on at school remain the financial responsibility of their parents who continue to receive child benefit. But a young person who registers for work counts as a separate 'family' unit for welfare purpose and becomes the financial responsibility of the community.

Many of these young people have little or no hope of finding regular employment, being at best semi-literate and semi-numerate. In 1979/80, out of a total of 751,000 school-leavers in England, only 275,000 had GCE 'O' level/GSE Grade I passes in English and only 197,000 had similar qualifications in mathematics. Over 91,000 children (about 12.2 per cent left school in 1979/80 without having passed any examinations at all, and a further 269,000 (about 36 per cent left school having obtained only lower grades in miscellaneous subjects.<sup>1</sup>

These youngsters are in desperate need of further education and/or vocational training. If they do not get it they are likely to remain on the periphery of the labour market throughout the whole of their working lives. Yet often they choose unemployment and supplementary benefit precisely because they come from families who need, or think they need, the extra cash.

Although various grants, benefits and allowances other than supplementary benefit exist for the 16-19 age group, the regulations are bewildering in their complexity and constantly changing. Responsibility is divided between at least three central government departments (the Department of Health and Social Security, the Department of Education and Science, and the Department of Employment) and the local authorities. In most areas educational maintenance allowances are cut off at such low income levels and are worth so little that they do not compete with supplementary benefit. In practice 16-year-olds are able to stay on at school or go into further education only if their parents are able and willing to support them.

Britain lags far behind France and West Germany in her attitude towards training and further education. And the Government's *New Training Initiative*<sup>1</sup> tackles only part of the problem. A great deal of public expenditure will be wasted unless the provision of training places is combined with rationalisation and reform of *all* income support schemes for the whole 16-19 age group.

#### **Training and income maintenance in West Germany**

Recent figures show that only 56 per cent of British school-leavers were engaged in full-time general education, vocational education or apprenticeships, compared with 90 per cent in West Germany and 81 per cent in France. In West Germany there is a unified system of income maintenance for students and first-time trainees which is probably the most advanced of its kind anywhere in the world.<sup>2</sup> On reaching a certain level in school (usually at about 16), every young person is entitled to a minimum income, part loan and partly contributed either by the parents or out of public funds, provided that he or she is pursuing a recognised course of study. The sum guaranteed varies according to age, type of course, and whether or not the student is living at home. The aim is to ensure that every young person has an equal opportunity to reach his or her full potential. Training courses are readily available and young people who prefer not to take the opportunities provided are generally not able to draw social security.

<sup>1</sup> Dept. of Education and Science, *Statistics of School Leavers CSE and GCE —England*, HMSO, 1980.

<sup>1</sup> Cmnd. 8455, HMSO, 1982.

<sup>2</sup> *Bundesausbildungsförderungsgesetz (BAföG)*, or law for the promotion of education and training. The West German social security system is outlined in Rolf Neuhaus [19].

In Britain there is a long-standing prejudice against vocational training, which is regarded as in some way inferior to academic learning. Yet the economy needs technicians and craftsmen as well as graduates. There is no economic justification for an income maintenance system which favours those who are academically inclined. Nothing is to be gained by using public funds to encourage young people to go to university who lack academic ability, or who would be able to contribute much more by learning a trade or getting a technical qualification. Yet this is precisely how the system operates. Academic courses qualify for mandatory awards whereas vocational courses qualify only for discretionary awards. When funds are limited, the latter tend to fade away. Students at colleges of further education generally come from families where there is less money available than in the families of university undergraduates. Yet most college students receive no grant or very little. In addition they are expected to pay fees and supply their own equipment. Not surprisingly, they end up with less spending power than if they stayed at home and relied on the dole.

**EXAMPLE:** One sister, aged 21 and unemployed, has spending power from supplementary benefit of £21.15 a week, and can earn a further £4 a week without loss of benefit entitlement.

The other sister, aged 18, who is training to be a hairdresser, earns £31 but has net spending power of £19 after deducting tax, NIC, fares and college fees. How this happens is shown in Table 13.

**Table 13:**  
**Spending Power as Trainee Hairdresser compared with Supplementary Benefit**

<i>Second-year hairdressing apprentice + day release</i>		<i>Unemployed on SB</i>	
	£		£
Wage	31.00	Unemployed 18-year-old SB scale rate	18.60
		<b>PLUS</b>	
		Non-householder's housing addition	2.55
		Disregarded earnings	4.00
<b>LESS</b>			
Income tax	0.26		—
NIC	2.71		—
Fares to work	5.00		—
College fees, etc. weekly average	1.35		—
Fares to college + lunches	2.00		—
<b>NEW WEEKLY SPENDING POWER</b>	<b>18.68</b>		<b>25.15</b>

*Note:* how the £31 wage takes the second-year apprentice into the 'NIC trap'. Because her earnings are over £29.50 she must pay NIC at 8.75 per cent on the whole lot. She would be better off with a wage of £29. Her net pay after income tax and NIC is £28.03, only 53 pence more than the £27.50 rate for a first-year apprentice, which is below the thresholds for income tax and NIC.

### 10. Means-Tested Benefits

Instead of tackling the problem at its roots, the authorities' response to the unemployment trap has for many years been to increase reliance on means-tested benefits, by introducing new ones and by raising the entitlement levels for existing ones. Each time this happens there is an initial palliative effect which is quickly followed by new distortions. The main consequence has been the opening up of the poverty trap.

it is widely supposed that means-tested benefits are the most cost-effective way to tackle poverty. But means-tested benefits at best relieve poverty; they can never prevent it. And because the 'take-up' of benefits is low, they are never more than 75 or 80 per cent effective, often much less. Furthermore, because of the discouraging effects on incentive as they are withdrawn, it is arguable that means-tested benefits add to poverty by inhibiting the long-run productive process. This is more than ever likely when, as in Britain, means-tested benefits are paid to people who are also subject to tax.

### Tax-induced poverty

During the last 30 years we have created a new sort of poverty: *tax-induced poverty* (Table 14). The DHSS figures show that in almost every case means-tested benefits payable to employed people are necessary only because gross earnings have been whittled away by income tax, national insurance contribution and local authority rates. If such taxes were levied according to ability to pay there would be little need for means-tested benefits. The official argument that the poverty trap is largely the result of measures taken to relieve poverty<sup>1</sup> does not withstand close examination.

**EXAMPLE 1:** Assuming average local authority rents and rates, a single person's means-tested housing benefits are less than his tax liability unless his earnings are below £44 a week.

**EXAMPLE 2:** Assuming average local authority rents and rates, means-tested housing rebates for a married couple are less than tax liability unless earnings are below £59 a week.

**EXAMPLE 3:** Again assuming average local authority rents and rates, the total means-tested benefits entitlement (including family income supplement and free school meals) for a married man with two children is less than his tax liability unless his earnings are below £74.

**Table 14:**  
**Tax induced poverty: Tax liability compared with Means-tested Benefit Entitlement, October 1982**

Family type	Gross weekly earnings	Total tax*	£ per week Total means-tested benefit**
Single person	40	12	14
	50	16	11
	60	20	8
	70	24	6
Married couple	50	11	17
	60	15	14
	70	19	10
	80	22	8
Married couple + 2 children	60	16	34
	70	19	23
	80	23	16
	90	26	10

\* PAYE, NIC and local authority rates.

\*\* Rent and rate rebate, FIS, free school meals, free welfare milk.

Source: DHSS [1], April 1982.

<sup>1</sup> Joint memorandum by the Treasury, DHSS and Inland Revenue to the Treasury and Civil Service sub-committee Inquiry into the structure of personal income taxation and income support [11], pp. 00-00.

The incentive to work is further undermined by the unco-ordinated nature of means-tested benefits, due largely to the piecemeal fashion in which they have evolved. Lack of co-ordination between family income supplement and supplementary benefit means that child support is often higher on SB than when at work. The restriction of free school meals to families in receipt of FIS or SB creates further problems. Free school meals for a two-child family were worth £4.50 or more in November 1981, and to lose them has a major disincentive effect. Widows, who tend to earn just enough to take them above the FIS prescribed amounts, are frequently victims of this anomaly.

#### **Housing benefits contradictions**

Housing benefits provide another example. Instead of a single, unified system with all householders subject to the same ground-rules, entitlement depends on employment status and housing tenure. Consequently, people with the same income and the same housing costs get different treatment for altogether extraneous reasons. Housing costs, including mortgage interest, are payable in full to anybody in receipt of supplementary benefit (in other words, to those out of work), but working people, unless their wages are exceptionally low, get at best only part of a rent rise rebated, or some tax relief if they are mortgagees. The Government's new housing benefit scheme<sup>1</sup> is an important step in the right direction, but many anomalies will remain. For instance, no account is taken of owner-occupiers, yet an increasing number of people are buying their own homes, and an increasing proportion will in future be claiming supplementary benefit.

#### **Net spending power**

By showing how income tax and national insurance contributions have eaten into earnings during the past 30 years, and by comparing the SB scale rates with gross and net earnings, it has been demonstrated that the unemployment trap is the result of higher taxation rather than increases in social security benefits. But net spending power, which takes account of means-tested benefits and work expenses as well as child benefits and tax, is a more useful indicator of the total effect of government policies on work incentives, because it gives a more complete picture.

Table 15 attempts to show how *spending power replacement ratios*, i.e. how much you have to spend in work or out of work, have altered since the introduction of national assistance (the forerunner of supplementary benefit) in 1948. The figures are hard to unravel, and must be subject to all the usual caveats. In particular, as already explained, the figures must not be generalised. Some people will have been better off, and some worse off, than the figures suggest. No account is taken of additions to supplementary benefit other than free school meals and the post-1980 heating allowance. Nor do the figures include any allowance for work expenses other than fares, nor for an incentive margin.

*Housing costs* are the average housing additions (rent and rebates) paid with national assistance/supplementary benefit in each year. For 1948 the figures were taken from the 1975 Annual Report of the Supplementary Benefits Commission. For all the other years the figures are taken from the DHSS *Abstract of Statistics*.

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*Free school meals* are included only where there was a statutory entitlement, as with supplementary benefit and family income supplement in 1975, 1980 and 1981. There was no national scheme of free school meals until 1964.

*Free welfare milk* has been omitted from all the figures, because its value in 1948 is not known. But the regulations governing entitlement have not been altered significantly.

*Fares to work* for 1975, 1980 and 1981 are those used by the DHSS in their Tax Benefit Model [1], and are derived from Family Expenditure Surveys and the 1978-79 National Travel Survey, using the updated fares component of the retail prices index. For 1948 an estimated weekly expenditure of 10 pence has been used, this figure being derived from the *Report of an Enquiry into Household Expenditure 1953-54*, after allowing for an estimated 24 per cent increase in the prices of consumer goods and services between 1948 and 1953.<sup>1</sup>

This estimate of a 44-fold increase in the cost of travel to work between 1948 and 1981 is an indication of the enormous change which has taken place in travel to work patterns as well as in travel to work costs. People are having to travel further, and they are paying substantially more for each mile they travel. Lower-paid workers and women in particular, because they often do not have their own means of transport, are disproportionately affected. This is a subject important enough to warrant a study of its own. There must be a correlation between unemployment and the expenses of getting to work.

<sup>1</sup> The Social Security and Housing Benefits Act 1982.

<sup>1</sup> *Report of an Enquiry into Household Expenditure 1953-54*, Table 9

	Incomes:		
	£3 but under £6	£6 but under £8	£8 but under £10
Travel to work by: Rail/tube	0.01	0.025	0.03
Bus/tram	0.075	0.12	0.125

as per cent of average male manual earnings in October 1953 (£9.46):

**Table 15:**  
**Net Spending Power Replacement ratios**  
**1948, 1975, 1980 and 1981**

*National assistance/supplementary benefit scale rates plus free school meals and heating addition as percentages of gross earnings less income tax, NIC, rent, rates and fares to work, plus FAM/child benefit, FIS, rent and rate rebates and free school meals.*

(1) AVERAGE MALE MANUAL EARNINGS

Year	Single householder	Married couple	Married couple + 2 children*	Married couple + 4 children**
	%	%	%	%
1948	23	36	46	61
1975	32	51	66	88
1980	32	49	68	92
1981	33	52	71	94

(2) TWO-THIRDS AVERAGE MALE MANUAL EARNINGS

1948	34	55	73	93
1975	50	73	85	104
1980	50	70	88	97
1981	53	73	90	99

\* Two children aged 4 and 6.

\*\* Four children aged 4, 6, 12 and 16.

Note: SB entitlements are for November each year.  
 Earnings are for October each year, and provisional for 1981.

Sources: *Social Security Statistics, 1981.*

*The Taxes Acts, Vol. 1, 1980.*

DHSS *Abstract of Statistics* for index of retail prices, average earnings, social security benefits and contributions.

Own calculations.

Although wages have increased more rapidly than prices, the gap between living standards in and out of work has narrowed appreciably since 1948, and continues to do so. What would have been the effect on incentives if the trade unions had exercised more restraint in pay bargaining, or if incomes policy had been successful? Might it be that apparently irresponsible wage demands are a rational response to the consequences of the tax/benefit system on the relative living standards of families with children and of the lower paid? The sharp deterioration in the relative position of single people at two-thirds average earnings, and of families with children at average earnings, confirms the pattern already noted in Graph 8.

## PART FIVE

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**The Necessity for Reform**

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**11. AN INTEGRATED INCOME REDISTRIBUTION SYSTEM**

A widespread erosion of work incentives has been brought about by the combination of factors described in the preceding Parts. There must clearly be something wrong with a system which permits such a fundamental fault to develop. Why did it happen? The quick answer is the lack of strategic policy-making and of co-ordination, both between and within government departments. But the underlying reason is more subtle. It lies rather in public attitudes, and in the peculiarly haphazard and subjective approach to income redistribution which is endemic in Britain.

Despite the vast sums of taxpayers' money involved,<sup>1</sup> Britain has no income redistribution programme as such and no government department with overall responsibility for income redistribution—not even a division within the Treasury. There is no definition of objectives, no single poverty standard, and not even an agreed definition of what is meant by poverty.

*Instead of charging tax according to taxable capacity and paying benefit either according to assumed basic needs or according to previous earnings, people are slotted into arbitrary categories. Some are then treated more favourably than others, either because they are considered more deserving or because that just happens to be the way the system has evolved.*

Net incomes, living standards and work incentives have come to depend on altogether extraneous factors, e.g. on whether a person is male or female, single or married, widowed or divorced, with or without children, an old-age pensioner or one of the long-term unemployed, a school leaver or sixth-former, disabled in war, at work, or from birth.

A rational system of income redistribution would rest on objective criteria such as assumed basic need and taxable capacity, which in turn could be calculated using scales derived from family budgets.<sup>1</sup> Such budgets, taking account of minimum nutritional and other needs as well as spending patterns, already form the basis of social aid scales in the United States, Germany and elsewhere. The same standards should apply to allowances against income tax. Alternatively, the tax system and the benefit system could be integrated, either through tax credits or through a negative income tax.<sup>2</sup> When benefit entitlement or tax liability is based on unstated criteria, subjective and political judgements take over and the door is open to government by pressure groups, vested interests and political expediency. Those with the loudest voices or most numerous votes benefit at the expense of those without and the system falls apart.

That is precisely the position in Britain today. Some people receive state benefits when they already have sufficient resources

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of their own, or pay less in tax than they might reasonably be expected to pay. Others go without. Almost everybody feels cheated. And because the system is so complex and inaccessible, constructive and effective criticism is difficult.

Surprisingly, Britain's muddled approach to income redistribution is seldom questioned. Nor is the widespread habit of making subjective judgements about other people's welfare requirements or the amount of tax they should pay. Politicians, civil servants, academics, research institutes, the media and countless pressure groups are all in the business of suggesting how much people should get and pay—all without any attempt at a coherent, consistent and costed strategy.

Some areas have become sacrosanct, notably retirement pensions. Nobody dares to question their preferential treatment, although it means that pensioner couples pay no net tax (in other words, state retirement pension exceeds tax liability) until their incomes reach nearly £11,000 per annum, or £205 a week. In contrast, couples with one wage earner and two children start to pay tax on incomes below £75 a week. No account is taken of the extra costs of raising children, nor of the disutilities of work.

**Table 16:**  
**Tax/benefit treatment of pensioners compared with working families**

	Tax break-even points,* October 1982, £ per week		
	Gross incomes	Tax liability	Tax break-even points (rounded)
	£	£	£
<b>1. Pensioner couple</b>			
State retirement pension	47.35	Income tax 47.40	157.65
Other income**	157.65	NIC —	
<b>TOTAL GROSS INCOME</b>	<b>205.00</b>	<b>TOTAL TAX 47.40</b>	
<b>2. Married couple with 2 children</b>			
Gross earnings	64.00	Income tax 5.09	64.00
Child benefit	10.50	NIC 5.60	
<b>TOTAL GROSS INCOME</b>	<b>74.50</b>	<b>TOTAL TAX 10.69</b>	

\* Tax break-even point defined for pensioners as the level of other income at which net liability to tax commences, and for working families as the gross earnings level at which net liability to tax commences. Note that state retirement pensions are taxable whereas child benefit is tax-free.

\*\* Occupational pension, investment income, and so forth.

<sup>1</sup> About £69 billion in 1981-82 made up as follows: social security (including student maintenance awards, FSM and MSC benefits/allowances) £31.42 billion, housing expenditure (excluding capital expenditure) £4.46 billion, estimated cost of income tax allowances, relief and exemptions £33.3 billion.

<sup>1</sup> For a full discussion of family budgets, Margaret Wynn [21].

<sup>2</sup> Colin Clark and others [22].

A powerful lobby is at present recommending an increase in child benefits to be financed by the abolition of the married man's tax allowance and the wife's earned income allowance in favour of non-transferable adult tax allowances. Thus not only would all adults of working age be entitled to the same tax allowance (approximately equal to the present single person's tax allowance), but husbands and wives would be taxed independently, so that the new tax allowance would be worth nothing to a non-earning spouse. The savings from abolishing the married man's allowance and wife's earned-income allowance would be diverted to increasing child benefit.

Using 1981-82 tax allowance figures and November 1981 supplementary benefit figures, it can be shown that the effect would be to push the tax threshold for married couples without children on a single wage even further below SB level than it is at present. As shown in Table 17, the position for families with children would improve at the expense of families whose children are grown up.

**Table 17:**  
**Tax Thresholds and Supplementary Benefit Levels in October 1982 and Under a System of Mandatory Independent Taxation**

	£ per week		
	Tax thresholds		SB levels including average rent addition November 1981
	Existing system 1982-83	Proposed system	
Single person's tax allowance	30.10	—	35.39
Wife's earned income allowance	30.10	—	
Married man's tax allowance	47.02	—	
New adult tax allowance		30.10	
Two wage married couple	77.12	60.20	52.23
Single wage married couple	47.02	30.10	51.23

Reform of the existing system of tax relief is urgently required, but if separate taxation of husband and wife on these lines were put into effect, it would worsen the unemployment and poverty trap for childless married couples dependent on the low earnings of a single spouse. There are probably over a million families without dependent children where the wife is not in paid work, and many of them are low paid. Many more wives work part-time and would not be able to take full advantage of a non-tax allowance. No matter how strong the case for increasing child benefit, it would appear quite wrong to raise the living standards of families with children at the expense of any other hard-pressed group in the community.

Indeed, this would be just another patchwork change of the kind which has done so much damage in the past. Yet it is put forward as a serious option for reform in the Government's consultation paper, *The Taxation of Husband and Wife*,<sup>1</sup> by the Equal Opportunities Commission,<sup>2</sup> and by the Institute for Fiscal Studies,<sup>3</sup> among others. Its advocates presumably believe that anybody without dependents should take paid work or register for work, and that this value-judgement should take priority over the concept that taxable capacity varies with the number of dependents. They seem not to have considered the social and economic effects if more than one million non-working wives were suddenly to register for employment.

If we are to restore work incentives at the same time as preventing poverty and having an income redistribution system that people accept as fair, it will be necessary to avoid social and political prejudice, and to remodel the entire tax/benefit system on the basis of carefully defined, objective and consistent criteria. Having done this, all future benefit upratings and tax changes must be carefully synchronised. Insofar as means-tested benefits remain necessary, the same entitlement regulations must apply across the board, regardless of employment circumstances.

<sup>1</sup> Cmnd. 8093 [27].

<sup>2</sup> *The Taxation of Husband and Wife*: Response of the EOC to the Government's  
Green Paper, 1982.

## Conclusions

1. The purpose of this study has been to examine the relationship between the tax system and social benefits to discover how work incentives have been eroded. Without doubt there has been a marked deterioration in the tax/benefit balance since 1950—and it continues. The effect of increased replacement ratios on the unemployment trap has been partially offset by the introduction of means-tested benefits for the lower paid. But a perverse by-product has been to reduce or remove differences in net incomes over a wide range of gross earnings. In other words, it has created the poverty trap and the poverty plateau.

2. The present contradiction is not due to increases in flat-rate unemployment or supplementary benefit rates, which bear approximately the same relation to gross earnings as in 1948. The chief cause is the attack on the living standards of the lower-paid from direct taxation (income tax and national insurance contribution).

*Income maintenance today is no longer simply a matter of how much is paid out by the state in welfare benefits. What the state takes away in taxation is equally important. This is a development of the utmost significance. But government is still conducted as though there had been no such change.*

3. Because of Britain's almost unique flat-rate benefit system with its dependency additions, the lower-paid and families with children receive disproportionately large benefits in relation to former earnings if they are out of work. And at the same time, because our tax system starts too low down the income scale, and because child support is inadequate and fragmented, their net incomes from paid work are disproportionately small. The cumulative nature of PAYE compounds the problem, and the tax refund anomaly will not be remedied by the simple expedient of making some benefits liable to tax.

4. The predictable consequences of an irrational, faulty system of income redistribution are unemployment, inflation and low growth—except in the spreading cash economy. And it is surely no coincidence that Britain is experiencing just such effects. Nevertheless, it is not the main purpose of this study to examine those relationships, nor to try and show exactly how many people are exposed to the moral hazard of social benefits through the erosion of incentives to help themselves. In theory, survey evidence is the most reliable source of information. In practice it is out of date before it is published. It also tends to underestimate the scale of the problem, because people forced by the system to break or bend its rules are not likely to admit it.

5. The nearest we can get to quantifying the scale of the problem is a round estimate of 4½ million adults in 1979, at risk from the unemployment and poverty traps, representing about 18 per cent of the work-force. But the figures are increasing and the total at risk in 1982 is unlikely to be less than 5½ million or over 20 per cent of the welfare. The poverty and unemployment traps are closely interwoven, and many potential victims of the poverty trap are among Britain's 3 million unemployed.

6. Attempts made by other writers to quantify the scale of the problem, using hypothetical standard rents, rates and work ex-

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penses to establish so-called average replacement ratios, are extremely misleading because it is precisely those people with above-average housing costs and fares to work who are most at risk from the unemployment trap. It is necessary to distinguish between *net income replacement ratios*—which can be generalised to estimate numbers affected, but which are unhelpful because they take no account of individual circumstances—and *spending power replacement ratios*, which give the full picture for each individual but which cannot be generalised.

7. It is important to emphasise that the problems described in this study are by no means unique to Britain, nor to the present time. Similar problems have occurred before, and are now being experienced in most countries with highly-developed social security systems. Recognition and study of the difficulties inherent in income redistribution programmes, and of the micro-effects on the individuals concerned, is a necessary first step towards a more efficient system.

8. The argument about unemployment should be not about whether today's unemployed genuinely want to work, but about the price at which it is worth their while to sell their labour and the speed with which they set about and find new jobs. An incentive margin of £10 may be reckoned the minimum payment necessary to offset the disutilities of work. If, for whatever reason, each unemployed person now takes on average twice as long as before to find an acceptable job, the unemployment statistics will double. At the same time, if living standards for skilled and unskilled labour converge, a lack of skilled workers and a surplus of unskilled labour, must result, so that unemployment and labour shortages exist simultaneously. Again, if child support is inadequate, there will be continuous upward pressure on wages right across the board.

9. Where it can be shown that the existing tax/benefit structure is likely to have such effects, it would be better to change the structure quickly rather than waste time arguing about the exact number of people affected. The only logical alternatives are to accept a continuing increase in the so-called 'natural rate of unemployment' or introduce direction of labour.

10. The problems outlined in this *Monograph* will not be remedied by *ad hoc* or patchwork solutions. The system requires radical reform by the consistent application of objectively defined criteria. The twin problems of income redistribution and incentives to work should be the responsibility of a single government department.

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cc JV  
AW



Prime Minister (P)

Caxton House Tothill Street London SW1H 9NA F

Alan Walters

Telephone Direct Line 01-213 6400  
Switchboard 01-213 3000

has no objection to  
these changes. Agree them?

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
Great George Street  
LONDON  
SW1

Ms 21/9

21 September 1982

D Geoffrey

YOUNG WORKERS SCHEME

We introduced the Young Workers Scheme with the intention of running it for 2 or 3 years, but the European Commission approved its operation only until 3 January next year. I have accordingly reviewed the scheme in the light of experience and evaluation of it with a view to securing European Commission approval to its continuation.

We have now approved 100,000 YWS applications and are in line with our estimate of expenditure for 1982/3. Our preliminary evaluation of the initial effects of the Scheme suggests that whilst there is a large deadweight new jobs are being created. In 6% of cases, wages have already been reduced and in a further 40% of cases, employers expect the scheme to influence wages. The incremental effect, although small, is in line with what we expected at this stage and the fairly substantial wage effect in prospect is encouraging.

The proposals I now make for changes in the Scheme are that, from 3 January next,

(a) the present earnings limits of £40 and £45 should be raised to £42 and £47 and that the subsidy should be available where those sums or less are paid in weekly earnings. This increase is less than the rate of inflation (which would produce limits of £43.50 and £48.50) and will maintain the squeeze on juvenile wages while keeping a reasonable proportion of young people in scope. I do not propose to alter the levels of subsidy, which will stay at £15 and £7.50.

I think it  
would be  
worth the  
amount now.  
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rise to the  
expectation  
that the sum  
will be raised  
every year.

And -  
Chancellor has  
just made a  
speech disloyal in  
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(b) the Scheme should be extended to the employment of young people in domestic households. There may be some political criticism, but I can see no good reason for excluding from the Scheme any area in which jobs might be created for young people.

(c) the Scheme should be available to employers in respect of young people coming off the Youth Training Scheme, in exactly the same way that it is currently available for ex-YOP trainees. In order not to rule out young people who have a short period of employment before entering the YTS, we will not count his time on the YTS as part of his first year of employment for the purposes of this Scheme. The Scheme will also be available for 16-year-olds alongside the YTS. The MSC have argued against this that it may seem to detract from the Government's commitment to the objective of seeing all young people entering working life with a sound foundation of educational training and work experience. I do not accept this and in any case we do also want to see as many young people in jobs as possible. If the YWS induces employers to create additional jobs for young people and so reduce the number of them who are unemployed and need to be catered for by the YTS, I would welcome it. the two subsidies - under YTS and YWS - would not however be paid together to the employer in respect of the same person.

(d) if European Commission approval seems to turn on making provision of training a condition of eligibility for the subsidy, I propose to introduce into the Scheme a simple condition that the employer should undertake to provide some training that he regards as appropriate. I should, however, prefer to avoid imposing a training requirement. It is an undesirable complication of the aims of the Scheme and an evaluation has shown that 90% of young people subsidised under it do in fact receive some training.

It is estimated that the net effect of these changes in the Scheme will be to reduce expenditure on it in 1983-4 by £30 million compared with the existing PES provision. Inclusion of domestic service in the Scheme will therefore not require additional provision.

The most difficult question has been whether or not to raise the earnings limits. We certainly do not want to give the impression that they will automatically be increased every year, since that would be contrary to the aim of the Scheme. Not to raise them at all would, however, lower very considerably the take-up and scope of influence of the Scheme next year, for the reasons explained in the attached note. With Alan Walters agreement, my proposal is therefore to make sufficient increase to maintain



its take-up and influence but a good deal less than would be required to maintain the real value of these limits.

I hope these proposals are acceptable. Subject to your views and those of other colleagues, I propose to announce these changes at the end of this month. The Wages Councils begin soon on the process of considering their forthcoming awards and it is important that they should know our decisions beforehand. I also have to give two months' notice to the European Commission of our intention to continue the Scheme and to seek their approval.

I am sending copies of this letter and the attached note to the other members of E Committee, Sir Robert Armstrong and Alan Walters.

*J. Norton*





## EARNINGS LIMITS

At present employers receive £15 a week if the young worker earns less than £40 a week and £7.50 if the young worker earns £40 or more but less than £45. These limits were set well over a year ago and a fall uprating to maintain their real value would take them to £43.50 and £48.50. It can be argued that, given the aims of the scheme, the limits should not be changed at all this year, so as not to arouse expectations that the limits will be increased each year as wages rise.

2. There are three reasons for making some increase in the limits:

(a) The introduction of the Young Training Scheme will affect the take-up of the Young Workers Scheme. Fewer 16 year olds will be available for the YWS, and the balance of the YWS will thus shift from 16 year olds to 17 year olds. There will be an important role for the YWS in subsidising jobs for young people leaving the YTS at 17, but at the same time the scope for the scheme will be reduced because the proportion of 17 year olds whose earnings are within the limits is roughly half that of 16 year olds. With the addition of a fall in the real value of the earnings limits, the coverage of the scheme is bound to fall. We have just approved the 100,000th application since the scheme started in January. If the limits are unchanged, the take-up is estimated to fall considerably to under 80,000 in the 12 months of 1983-84;

(b) At present, YWS may influence the wage policies of the very large number of employers paying juvenile wages just above the earnings limits, in that they might well keep wages down in the hope of qualifying for YWS when earnings limits rise. If there is no rise, we shall lose the opportunity to influence these employers.

(c) The position of employers covered by the Retail Wages Councils, which cover large numbers of young people, has been the subject of continuing critical correspondence with employers. They have pointed out that premia payable for Saturday work make it more difficult than it would appear from tables of basic Wages Council rates for many of them, particularly smaller businesses, to benefit from YWS. They will also be affected by an increase in London Weighting to come into effect by the Spring of 1983. Preservation of the present state of eligibility for both the higher and lower rate subsidy will require increases in YWS limits to £42 and £47, and these revised limits would still give very little scope for further general increases in the coming round. To retain the existing £40 and £45 limits would therefore give rise to a substantial volume of protest from the retail employers covered by the Wages Councils and remove the leverage of the scheme on those Councils' decisions.

95V

Qc.03418

To: Mr Scholar

21 September 1982

From: A M Bailey

Unemployment

As requested at the Prime Minister's meeting on 13 September, I attach a checklist of measures proposed in our unemployment report. This also notes related proposals made in the Minford/Smith study, and in the discussion itself.

2. The CPRS is beginning work on the benefit remit given at the meeting. But it would clearly be helpful to be able to discuss the detailed proposals (at A in the list) with DHSS and other Departments concerned. Some of these come from the Minford/Smith report, and the factual base of that report is obviously relevant to our study. So far copies of the report have only gone to a restricted list of Private Offices, and the Prime Minister may wish to consider authorising us to discuss it at least with a limited number of selected individuals in Departments.

3. Finally, I should mention the need to carry forward consideration of the CPRS report on the Black Economy. A number of steps that Ministers might take are listed in the report (Chapter 6). They concern the Revenue Departments, Employment and DHSS. The Ministers in these Departments might therefore be invited to consider the recommendations.

4. I am sending a copy of this minute to Mr Gregson (Cabinet Office).

AMV

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Unemployment: Issues for discussion and decision

This note sets out what in the CPRS's view are the main points for Ministers to discuss and decide on our report on unemployment. It also includes the main points from the report on unemployment commissioned by Professor Walters ("the No.10 report"), and from a discussion with the Prime Minister on 13 September. There are references to paragraph numbers in the unemployment report (or page numbers in the No.10 report), and suggestions as to which Department should take the lead in further work.

A. Unemployment Benefits

(Note: The Prime Minister has asked the CPRS to prepare fuller proposals on benefit reform designed to improve work incentives for young people in particular; this remit will need assistance from Departments, notably DHSS.)

- (i) Require supplementary benefit recipients after 3 months to accept any safe work which gives them an income, with in-work benefits, no worse than benefit income when unemployed (7.16, and No.10 report, p.73).
- (ii) Require SB recipients to show evidence of active job search (13/9 discussion).
- (iii) Collect a larger pool of vacancies and other community work to test job availability (No.10 report, p.73).
- (iv) Cap individuals' benefit entitlement at 90% of previous net income in work (7.13 - No.10 report, pp 63-64, says 70%).
- (v) Apply to long-term unemployed family men and wives the same disregards of part-time earnings for benefit as for single parents.

B. In-work Benefits

- (i) In the short term, market FIS better (7.10), extend it to part-timers and provide a more gradual taper (7.19(c), DHSS). Or pay more generous FIS based on net income to offset abolition of means-tested benefits in kind (free school meals, prescriptions etc) as transitional measures to an eventual Negative Income Tax (No.10 report, pp 81-82).
- (ii) Devise a replacement for FIS to be included in the wage packet (7.10, DHSS/IR).

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(iii) Increase child benefit by £2.15p per child (No.10 report, p 83).

C. Employment Measures

(i) Develop the pilot "enterprise allowance" scheme for unemployed would-be entrepreneurs into a cost-effective national scheme (5.33(b), DE).

(ii) Extend the Young Workers' scheme to 18-25 year olds with a £60 wage limit, and to the domestic household sector, and increase its marketing budget (6.14, DE).

(iii) Encourage more early retirement in short term: by extending the Job Release Scheme to 60+ year olds, including a partial retirement option (9,18); and allow 50-59 year olds to retire after 2 years' continuous unemployment (9.25(e), DE).

(iv) Include basic remedial education, where needed, in existing MSC and DHSS programmes for training the long-term unemployed or preparing them for work (9.21(c), DE/DHSS/DES).

(v) Stimulate local voluntary and informal initiatives to improve the educational attainments and employability (notably for non-manual jobs) of the long-term unemployed (9.25(b), DES/DE).

D. Flexible Wages (see also H. Strategy)

(i) Commit the Government to abolish all wages councils in 1985 (6.3, and No.10 report, pp 125-131; DE).

(ii) Mount a campaign to correct public misapprehensions about the link between pay and employment (6.4, DE/Lord President's Office - see also J. Presentation).

(iii) Continue step-by-step approach on union legislation with secret ballots as next step (5.12-13); or end union immunities and closed shop agreements, set up a Labour Monopolies Commission with power to bring actions under common law (No.10 report, pp 107-124).

E. Encourage more jobs

(i) Commit the Government to lighten further the regulatory burdens on small employers. Reconsider the following specific options previously rejected (DE):-

(a) release firms employing less than say 50 workers from statutory obligations to make redundancy payments;

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- (b) make unfair dismissal protection optional (say for new businesses or for businesses with fewer than 50 employees);
  - (c) raise the ceiling (5 employees) below which firms may gain exemption from duty to reinstate women after maternity leave, and make exemption unconditional.
- (ii) Commission a detailed study of scope for domestic households to offer work to the unemployed, how obstacles might be overcome and what positive action, including household tax allowances, Government might take (6.13, DE with other Departments).

F. Fiscal Measures

- (i) Review the rules governing the Business Start-up Scheme to eliminate unnecessary restrictions (Try/DI/IR).
- (ii) Devise a balanced programme of changes in company taxation, national insurance and regional incentives designed to reduce both capital subsidies and labour taxes (6.11, Try/DHSS).
- (iii) Institute a regional employment subsidy using EC Regional Fund (No.10 report, p 135).
- (iv) Increase tax thresholds by 40% over 2 years (No.10 report, p 82).
- (v) Revise public expenditure planning and control procedures to take more account of employment objectives:-
  - document the employment impact of spending options and the real outputs of special employment measures so that Ministers can decide the "best buys" (9.9, 9.25, Try);
  - examine in particular whether labour-intensive construction contracts could be a better buy than community work (9.9, DE/DOE);
  - introduce targets for annual running costs, rather than manpower targets, to reduce bureaucracy (6.16, Try).

G. Education/Training

- (i) Improve the relevance of the school curriculum, standards attained by school leavers and the certification of these standards (5.8); make it easier for people to attain full potential through vocational rather than academic education (5.5, DES).

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- (ii) Apply effective leverage to secure apprenticeship reform, taking account of plans for the Youth Training Scheme (DE); develop idea of vouchers for adult training (MSC); reconsider possible use of forces to train young unemployed (MOD).

H. Strategy

In addition to specific remedies, the CPRS report sets out a general strategy for reducing unemployment (chapter 4). Among the main points are:-

- (i) An improved supply performance (eg on innovation, entrepreneurship, management) is an essential component of any solution for unemployment.
- (ii) Labour market flexibility (including market-clearing wages) is equally a precondition for curing unemployment (emphasised in No.10 report, chapter 1).
- (iii) Among the wide range of obstacles to greater labour market flexibility, one formidable obstacle is the extent to which stable high wages and low manning levels are perceived as being in the best long-run interests of sizeable organisations (ie what we call the "primary" sector). Hence the need to break down large organisations in public and private sectors, increasing the market share of small and new businesses, (which are already more flexible); and to give this "secondary" sector greater freedom to set their own wages and conditions of employment. For this purpose it will be necessary to pursue with greater vigour contracting out, privatisation, competition (pp 56-61) and lightening burdens on small firms (pp 64-66). Also policies towards unions should aim at (a) preventing unions from obstructing contracting out etc and hamstringing (directly or indirectly) the "secondary" sector, and (b) encouraging them to play a constructive role in the "primary" sector where they belong; (a) calls into question among other things the TUC's role on the MSC (pp 51-53).

J. Presentation

Public beliefs (often shared by management) appear time and again in the report as a major obstacle to cures for unemployment: eg beliefs that unemployment is a problem of demand; that there is an absolute right to (at worst) maintain living standards; that there is a direct

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link between low wages and family poverty; and that there is no direct link between wages and employment. Unless or until there is greater understanding and acceptance of the Government's position on these issues, it will be extremely difficult to gain consent for the strategy. This needs concentrated attention on how the message might be built upon and disseminated, eg in the Government's response to the House of Lords Select Committee Report.

K. Other

The CPRS report also makes proposals in the following policy areas:-

Employee involvement (p 53), flexible working hours (pp 86-87), alleviating unemployment (pp 99-100)	DE
Labour mobility and housing (p 55, and No.10 report, p 134)	DOE
Competition policy (pp 56, 57)	D/Trade
Small firms (p 61), innovation (pp 62-63)	DI
Counter-cyclical measures (p 112)	Try

Manpower, Special Employment Measures

pt 8

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*Simply reducing unit labour costs in the*

*real point - not reducing real wages. The former can be achieved by increasing productivity.*

*MT.*

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MR SCHOLAR

REPORTS ON UNEMPLOYMENT BY CPRS AND NO 10 POLICY UNIT: FOLLOW UP

The Prime Minister will wish to consider how best to follow up the reports on unemployment by the CPRS and No 10 Policy Unit. She had an informal discussion of many of the points raised in the two reports on 13 September, but the three senior Ministers most closely concerned (the Chancellor of the Exchequer, and the Secretaries of State for Social Services and Employment) were not present. Both reports have been given only a very restricted circulation (especially restricted in the case of the No 10 report), of which you have the details.

Content of the reports

2. The coverage of the reports, which overlap in parts, can be summarised briefly as follows:

i. both reports stress the need to reduce real wages as a means of increasing employment

(this is the essence of the No 10 report; the CPRS report ranges more widely but has this as a major theme);

ii. both reports discuss changes in benefits and taxation in order to facilitate lower real wages

(in particular both reports suggest some "capping" of unemployment benefit; in this and in other proposals in this area, the No 10 report is more radical and ambitious);

iii. both reports also identify union power as an obstacle to reducing real wages

(the CPRS report places more emphasis on decentralisation, privatisation and competition policy so as to reduce the significance of the unionised sector



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of the economy; the No 10 report urges further major industrial relations legislation to break union power);

iv. both reports discuss various measures of a more peripheral and miscellaneous kind (eg the abolition of Wages Councils, and changes in housing policy to improve labour mobility; the CPRS report contains a very long list of possible measures);

v. both reports contain some proposals relevant to early economic decisions (the No 10 report contains a precise proposal about tax thresholds and child benefits in 1983; the CPRS report discusses the relative merits of reducing the National Insurance Surcharge, lowering direct taxes, and labour intensive public works);

#### Timing

3. Except in relation to v. above, neither report is clear about the timing of implementation of the various proposals. Broadly however the proposals might be divided into three categories:

a. proposals which must be considered in the context of forthcoming discussions about public expenditure and the next budget (eg changes in tax thresholds and labour intensive public works);

b. proposals which cannot be implemented before the next General Election (eg further radical industrial relations legislation of the kind proposed in the No 10 report, or a major restructuring of benefits);

c. proposals of more flexible timing (eg changes in benefit levels or rules which could be implemented before the Election, but do not have to be considered in the context of immediate public expenditure and budget decisions, unless Ministers so wish).

#### Sensitivity

4. It goes without saying that both reports are sensitive in varying degrees. This sensitivity extends not just to specific proposals about taxation or benefit levels but also the general strategy of reducing real wages which will need careful handling politically and presentationally.



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Next steps

5. Some of the issues raised in the reports, eg changes in taxation, will fall to be discussed by the Prime Minister and the Chancellor of the Exchequer in the normal way. The Prime Minister will however wish to consider how to take further the various detailed proposals which will not be automatically subsumed in the pre-budget discussions. It would seem that the most useful next step might be for the Prime Minister to have an informal talk with the three senior Ministers most closely concerned with the matters discussed in the two reports, ie the Chancellor of the Exchequer and the Secretaries of State for Social Services and Employment. This discussion might be directed to the following points:

- i. the political handling of the strategy for reducing real wages and in particular:
  - a. what particular proposals could and should be pursued in the context of the next budget and before the Election;
  - b. what other matters might be pursued with a view to implementation after the Election;
- ii. depending on i., how best to carry forward the matters on which action is required and in particular:
  - in relation to a., whether the task should be given in the first instance to the lead Minister (eg in the case of changes in benefits to the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer and the Secretary of State for Employment);
  - in relation to b., whether some or all of the matters to be pursued after the Election should be studied under Party rather than Government auspices.

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6. If the Prime Minister decides to have a preliminary meeting of this kind with the other three senior Ministers, it would be useful for her and them to have a checklist of the proposals in both reports to work through.

*PLG*

P L GREGSON

20 September 1982

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*cc. F. Mount.  
ATI Pullo  
Discussed with Mr Bailey  
PA*

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 - 7798

Qc.03144

17 September 1982

*Dear Michael,*

Unemployment: Seminar

As suggested at the Prime Minister's meeting on Monday evening, you have asked us to prepare a check-list of action points arising from our unemployment report, and from that discussion, to be sent out to the Prime Minister early next week for her to consider next steps. In parallel, you have proposed that Peter Gregson should produce a note on the handling and timing of this further consideration.

2. This is complicated, both as regards what is in our unemployment report (we are asked to focus on practical steps but do not want to lose sight of the strategic issues) and what is not in the report (further proposals made on Monday evening, and in the Minford/Smith report). However, I enclose a draft note which, if the Prime Minister agrees, could serve as a basis for Ministerial discussion. I should be grateful for your comments (and any from Peter Gregson to whom I am sending a copy of this letter) before it is submitted formally at the beginning of next week. You will want to consider in particular how the Minford/Smith recommendations are treated, in view of the Prime Minister's decision about its circulation.

3. I also enclose a fairly full record of Monday's meeting, which we agreed need not go further than No.10, assuming that the check-list gets circulated more widely.

*Yours,  
Alan*

A M BAILEY

M C Scholar Esq  
10 Downing Street

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Draft Minute to Mr Scholar

UNEMPLOYMENT

I attach a note which sets out:-

- (a) the main issues for Ministerial discussion and decision arising from the CPRS report on Unemployment;
- (b) other points for action arising from the informal discussion which the Prime Minister held with some colleagues, advisers and members of the CPRS on Monday 13 September.

As to handling, I suggest that, if the Prime Minister agrees, you should send the note to Departments asking individual Ministers to consider the specific proposals in their own areas of responsibility (paragraphs 3, 8 and 9), and set in hand further work where necessary; and proposing a meeting of Ministers to consider the strategic approach and the presentational problem (paragraphs 4-7).

2. I also attach a draft letter to the Secretary of State for Social Services, informing<sup>him</sup> of the specific remit given to the CPRS at Monday's meeting, on the reform of benefits for the unemployed, and seeking his Department's assistance in this task. The draft letter indicates our thoughts on how this remit might be carried out.

3. Finally, I should mention the need to carry forward consideration of the CPRS report on the Black Economy. A number of steps that Ministers might take are listed in the report (Chapter 6). They concern the Revenue Departments, Employment and DHSS. The Ministers in these Departments might therefore be invited to consider the recommendations.

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Unemployment: Issues for discussion and decisionNote by the CPRS

1. This note sets out what in the CPRS view are the main points for Ministers to discuss and decide on our report on unemployment. It also identifies some additional points which arise from a separate report on unemployment commissioned by Professor Walters ("the No 10 report"), and from discussions held by the Prime Minister on 13 September.

2. The note lists in turn:

(I) specific remedies

(II) strategy

(III) presentation

(IV) other topics

I. ~~(\*)~~ Specific remedies (quoting paragraph references and indicating which Department or Departments should pursue further work).

3. We recommend that the following specific issues should be pursued:

a. Develop the pilot 'enterprise allowance' scheme for unemployed would-be entrepreneurs into a cost-effective national scheme (5.33b, DE).

b. Commit the Government to abolish all wages councils in 1985; <sup>and concurrently</sup> mount a campaign ~~of public education~~ to correct public misapprehensions about the link between low pay and family poverty and to persuade public of the link between pay and employment (6.3, DE and Lord President's Office).

c. Commit the Government to lighten further the regulatory burdens on small employers. Reconsider the following specific options previously rejected (DE);

i. release firms employing less than say 50 workers from statutory obligations to make redundancy payments;

ii. make unfair dismissal protection optional (say for new businesses or for businesses with fewer than 50 employees);

iii. raise <sup>to 10</sup> ~~to 50~~ ceiling (5 employees) below which firms may gain exemption from duty to reinstate women after maternity leave, and make exemption unconditional.

d. Restructure benefits for the unemployed<sup>(1)</sup>. For example:

- require supplementary benefit recipients after 3 months to accept any safe work which gives them an income, after in work benefits, no worse than benefit income when unemployed (7.16);
- cap individuals' benefit entitlement at 90% of previous net income in work (7.13).

NB. The Prime Minister has asked the CPRS, with assistance from DHSS to prepare fuller proposals on benefit reform designed to improve work incentives for young people in particular.

e. Improve the effectiveness of in-work benefits:

- In the short term, market FIS better (7.10), extend it to part-timers and provide a more gradual taper (7.19c, DHSS);
- Devise a replacement for FIS to be included in the wage packet (7.10, DHSS, Revenue);

f. Extend the Young Workers' scheme to 18-25 year olds with a £60 wage limit, and to the domestic household sector, and increase its marketing budget (6.14, DE).

g. Commission/<sup>a</sup>detailed study of scope for domestic households to offer work to the unemployed, how obstacles might be overcome and what positive action, including household tax allowances, Government might take (6.13, ~~inter-departmental~~, *DE and other departments*).

h. Devise a balanced programme of changes in company taxation, national insurance and regional incentives designed to reduce both capital subsidies and labour taxes (6.11, HMT, DHSS).

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(1) The No 10 report recommends collecting a larger pool of vacancies to test availability on this basis, capping benefits at 70% of previous net income. At the 13 September meeting, it was suggested that benefit recipients should show evidence of active job search.



i. Revise public expenditure planning and control procedures to take more account of employment objectives:

- document the employment impact of spending options and the real outputs of special employment measures so that Ministers can decide the 'best buys'

(9.9, 9.25, HMT)

whether labour

- examine in particular/intensive construction contracts could be a better buy than community work (9.9, DE, DOE)

- introduce targets for annual running costs, rather than manpower targets, to reduce bureaucracy (6.16, HMT).

j. Encourage more early retirement in short-term: by extending the Job Release Scheme to 60+ year olds, including a partial retirement option (9,18); and allow 50-59 year olds to retire after 2 years' continuous unemployment (9.25e, DE).

k. Include basic remedial education, where needed, in existing MSC and DHSS programmes for training the long term unemployed or preparing them for work (9.21c, DE, DHSS, DES).

l. Stimulate local voluntary and informal initiatives to improve the educational attainments and employability (notably for non-manual jobs) of the long term unemployed (9.25b, DES and DE).

## II(2) Strategy (Chapter 4)

4. In addition to consider specific remedies, we recommend that Ministers should discuss the report's general strategy for reducing unemployment.

Among the main points are:

a. A generally improved supply performance (eg on innovation, <sup>entrepreneurship,</sup> ~~tough and entrepreneurial~~ management) is an essential component of any solution for unemployment. The battle has to be fought across a broad front.

b. ~~Measures to secure~~ Labour market flexibility (including <sup>market-clearing</sup> flexible wages) are equally a precondition for curing unemployment. ~~This is insufficiently understood and~~ <sup>This is to secure this</sup> The scope for such measures ~~has been~~ <sup>is explained</sup> insufficiently explained inside and outside Government. Hence the report concentrates on them.

c. The obstacles to using ~~as~~ labour market flexibility as the route to more employment are numerous [~~see Annex ?~~]. No measure taken in isolation can be expected to produce dramatic results. Hence the long list of measures suggested in para 3 above.

(d) A formidable obstacle is the extent to which stable high wages and low manning levels are perceived as being in the best long-run interests of sizeable organisations (ie in what we call the "primary" sector).

The most practical way of overcoming this will be to break down large organisations in public and private sectors, thus increasing the market share of small and new businesses, (which are already more flexible); and to give this "secondary" sector greater freedom to set their own wages and conditions of employment.

5. The following are, we suggest, the main practical lessons for policy:-

(a) It will be necessary to pursue with greater vigour contracting out, privatisation, competition (pp 56-61) and lightening burdens on small firms (pp 64-66).

(b) Policies towards unions should place particular emphasis on (a) preventing unions from obstructing contracting out etc and hamstringing (directly or indirectly) what we call the "secondary" economy; and (b) encouraging them to play a constructive role in the "primary" economy where they belong. (a) calls into question among other things the TUC's role on the MSC (pp 51-53).

(c) Despite the acknowledged political difficulties, there is a clear need to lower the "wage floor" by changing public attitudes about low pay, abolishing wages councils and reforming benefits for both the employed poor and the unemployed.

### III Presentation

6. Public beliefs (often shared by management) appear time and again in the report as a major obstacle to cures for unemployment; eg beliefs that unemployment is a problem of demand, that there is an absolute right to (at worst) maintain living standards; that there is a direct link between low wages and family poverty, and that there is no direct link between wages and employment. Unless or until there is greater understanding and acceptance of the Government's position on these issues, we believe it will be extremely difficult to gain consent for our recommended strategy.

7. We recommend that Ministers should consider whether the report provides a useful basis for improving understanding (inside as well as outside Government) and if so how its message might be built upon and disseminated, eg in the Government's response to the House of Lords Select Committee Report.

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IV Other topics

8. The following additional points, relevant to supply performance, were identified as action points in the discussion which the Prime Minister held on 13 September (some also featured in the CPRS report).

- (a) Education - improve the relevance of the school curriculum, standards attained by school leavers and the certification of these standards (5.8); make it easier for people to attain the full potential through vocational rather than academic education (5.5, DES).
- (b) Training - apply effective leverage to secure apprenticeship reform, taking account of plans for the Youth Training Scheme (DE); develop idea of vouchers for adult training (MSC); reconsider possible use of forces to train young unemployed (MOD).
- (c) Entrepreneurship - review the rules governing the Business Start-up scheme to eliminate unnecessary restrictions (DI, Try).

9. The CPRS report also makes proposals in the following policy areas. We suggest that individual Ministers responsible should take these forward if they see merit in them:-

Employee involvement (p.53), flexible working hours (pp.86-87), alleviating unemployment (pp.99-100)	D/E
Labour mobility and housing (p.55)	DOE
Competition policy (pp.56, 57)	D/Trade
Small firms (p.61), innovation (pp.62-63)	D/I

NEXT STEPS

10. Ministers are invited to consider:-

- (a) whether they endorse the specific proposals in paragraph 3 and which should have priority;
- (b) how far they accept the strategic approach set out in paragraphs 4-5; and what practical implications this has for Government policy;
- (c) how to improve public understanding of the issues discussed in the report (paragraphs 6-7).

11. Ministers are also invited to consider individually the specific proposals for action (paragraphs 3, 8 and 9) within their own areas of Departmental responsibility, and to see that these are pursued.

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DRAFT MINUTE FOR MR SCHOLAR

TO PS/SECRETARY OF STATE, SOCIAL SERVICES

cc P/S Chancellor of the  
Exchequer  
P/S Secretary of State  
for Employment  
P/S Secretary of State  
for Education and Science

BENEFITS FOR THE UNEMPLOYED

1. As you will know the CPRS has recently completed a report on unemployment\*. The Prime Minister has given some preliminary consideration to the report. She is particularly interested in the proposals to reintroduce a wage stop on individual benefits, related to previous net income in work; and to tighten the rules which permit people to refuse "unsuitable" work and still receive benefit.

*The Prime Minister believes that there is a strong case for action*  
2. ~~Mrs Thatcher~~ *feels that the time has come to reform benefits, to improve incentives and work attitudes, particularly in the case of young single people.*

3. She ~~has~~ *therefore* asked the CPRS to follow up their report by producing - before the end of this year - a set of practical proposals for reforming benefits for the unemployed. This work will need to distinguish between the circumstances and incentive problems of the young and single on the one hand and heads of families on the other. Account will need to be

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\* [A report, attached for your personal use only, has also been prepared by a team from Liverpool University under the direction of Professor Walters.]

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taken of experience in other countries - it is the Prime Minister's impression that few other countries (if any) have so comprehensive and accessible a welfare <sup>system</sup> ~~safety net~~ as Britain. It will also be useful to establish what is known about the absolute living standards of different categories of unemployed people here, since this will affect the scope for change.

4. The Prime Minister would welcome any views your Secretary of State has on the work proposed. She also hopes that your officials will be able to make a substantial contribution to the work, since the CPRS will need to rely heavily on your Department's knowledge and practical experience.

5. Copies of this minute go to (as above).



S821 132 0 5

9/23V  
Prime Minister (2)

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

ms 20/9

My ref:  
H/PSO/16272/82  
Your ref:

17 September 1982

You sent me a copy of your letter of 8 September to Geoffrey Howe about the job splitting scheme.

Provided we can find a solution to the problem to which Janet Young has referred (her Private Secretary's letter of 15 September), there may well be scope for splitting some non-industrial posts in my Department. The scope for doing the same with some industrial jobs will, however, be limited by the fact that the Property Services Agency direct labour force is being run down and few jobs which become vacant are filled. Insofar as we can apply the scheme, there will be extra management effort and cost and I should want my existing allocations for administration to be increased if it proved necessary.

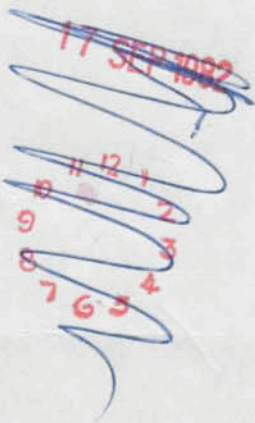
Incidentally, I hope that when you consult the CBI and the TUC you will also consult the local authority employers organisation - LACSAB - because they are not of course represented on the CBI.

I am copying this letter to members of E Committee, Sir Robert Armstrong and John Sparrow.

Yours ever

MICHAEL HESELTINE

20 SEP 1982



Manpower

Employment measures

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10 DOWNING STREET

*From the Private Secretary*

15 September 1982

*Dear John,*

The Minford/Smith Unemployment Study

I attach a copy of the study on unemployment which has just been completed by Professor Minford and Adrian Smith here.

The Prime Minister will wish to discuss the conclusions of the study with a number of her colleagues after her return from the Far East.

I am sending a copy of this letter and enclosure to John Halliday (Home Office), Barnaby Shaw (Department of Employment) and Gerry Spence (CPRS). The Prime Minister has asked that these copies of the study do not go beyond the Private Offices of the Ministers concerned.

*Yours sincerely,*

*Michael Scholar*

John Kerr, Esq.,  
H.M. Treasury.

CONFIDENTIAL



*cc JV*



Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 4400  
GTN 273 4400

15 September 1982

Marie Fahey  
Private Secretary to the Secretary of  
State for Employment  
Caxton House  
Tothill Street  
London SW1H 9NF

*Prime Minister (2)*

*Mus 16/9*

*MF*

*Dear Marie,*

JOB SPLITTING SCHEME

We had a word on the telephone yesterday and again today about your Secretary of State's letter of 8 September.

This is to confirm that we would have difficulties in operating the job splitting scheme because selecting from particular categories - those on the unemployed register or schoolleavers - comes into conflict with the Civil Service Order in Council which lays down that recruitment to the Service should be fair, and open to all those eligible. This is why we are finding it impossible to operate the Job Release Scheme following the withdrawal of our special arrangements which you announced on 1 April.

The Lord Privy Seal would, however, like to consider what might be possible and would be grateful if no commitments about the participation of the Civil Service in the scheme are given to the CBI and the TUC. You read over to me a form of words which you proposed to meet this, saying that special arrangements for the public services were still under consideration. The Lord Privy Seal is content with this.

I am copying this letter to the Private Secretaries to the members of E Committee, to Richard Hatfield in Sir Robert Armstrong's office and to Mr Sparrow, CPRS.

*Yours sincerely,  
Jim Buckley.*

J BUCKLEY

16 SEP 1982

11 12 1  
10 2 3  
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CONFIDENTIAL

14 September 1982

ALAN WALTERS

PRIME MINISTER

Prime Minister (1)  
 Agree to X?  
 M/S 14/9  
 Yes + only  
 to them  
 Personally  
 - not to go  
 beyond  
 HE  
 music  
 office  
 not

THE MINFORD/SMITH UNEMPLOYMENT STUDY

This is a good report. It contains a number of specific proposals, most of them important but by no means comprehensive, which are in principle feasible. It also examines the quantitative implications and so gives a standard by which their efficacy can be judged. It is a useful companion piece to the CPRS Study, and you will notice that it differs from their recommendations in certain respects. But the general thrust of both studies is the same.

There will no doubt be enormous dissension about the efficacy and quantitative effects of the Minford/Smith proposed measures. I think you should interpret the results only in terms of broad orders of magnitude. I do not think any great precision would be claimed. But fortunately precision is not necessary. Even if you divide the results by two or three, you get numbers sufficiently large to illuminate the policy decisions.

More important than the numerical estimates, I believe that the measures proposed are right and just in their own terms. For example, it seems to me right that there should be a 'cap' or ceiling on benefits related to previous earnings, combined with, of course, the other measures such as the increased child benefit and associated increases in thresholds. I suspect that the CPRS and many others will object, because it will be argued that the 'cap' will have little effect since it will mainly apply to married men with some family. This may or may not be the case. (Minford argues it would be much more widespread.) But the main point is that surely the principle is correct. It is a criterion which is widely recognised in all other countries - the only exception, tellingly, is Belgium.

Minford has not suggested an explicit order of priority in the list of measures. This was probably due to the fact that it is difficult accurately to foretell what the political and administrative problems will be.

/I suggest,

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- 2 -

(1) I suggest, however, that there is a natural ordering which comes from these proposals. First, it indicates the great importance of putting the raising of the thresholds as a first priority in our Budget process. At present the thresholds tend to be the residual legatee after all the other claims on the Budget have been met. I believe it is of great importance that in 1983 we put the thresholds first.

(2) The second priority seems to be the increase in the stringency standards for issuing benefits. I believe that this can be done without legislation by Administrative Order of the Secretary of State. It may be a good idea to start first with the young. I suspect this would be politically acceptable. The details, however, together with the proposed cap, will have to be discussed with DHSS.

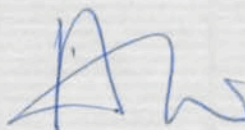
The development of the job pool idea is also useful; we could proceed in stages to the Minford suggestion of extending it to those who have been unemployed over six months. I suspect, however, that a "Workfare" scheme will take much longer and is of less urgency. But it is worthwhile making a move, especially again for the young, where there is likely to be political support for such ideas.

On union power, wages councils etc, I take it that we are moving as fast as politically we can. I suspect that we may get more public opinion behind us if the unions behave with unreasonable militancy during the winter. But I agree, little more can be done there.

The abolition of means-tested benefits-in-kind and replacement by a more generous FIS, is again something which we must consider in the much longer term. But it is worth setting in motion the machinery now. We all know it turns very slowly.

x I suggest that colleagues should meet soon after your return to reach preliminary conclusions on the basis both of the CPRS Report and the Minford Report. But meanwhile, during your absence, I suggest that distribution of the Report should be restricted to the Chancellor, Mr. Tebbit, Mr. Sparrow and the Home Secretary. This limited distribution should minimise risk of leaks.

14 September 1982

  
ALAN WALTERS

CONFIDENTIAL



3 mnt of SV

Prime Minister (2)

MS 14/9

Treasury Chambers, Parliament Street, SW1P 3AG *Maya*

Rt Hon Norman Tebbit MP  
Secretary of State  
Department of Employment  
Caxton House  
Tothill Street  
London SW1H 9NA

14 September 1982

*R Norman,*

*MT*

JOB SPLITTING SCHEME

You wrote to Geoffrey Howe on 8 September about some points left over from the E Committee discussion.

I am content with your proposals, except that I take up your point about the Civil Service below. The questions of minimum hours and the inclusion of young people under 18 are obviously finely balanced, and I note your intention to keep the latter under review. As far as the public sector in general is concerned, I assume that payments will be made by you to the employer concerned in precisely the same way as to a private sector employer.

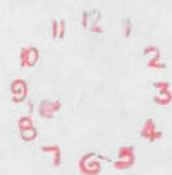
Turning to the point you make about the Civil Service, I would like to take some time to reflect on it. I take it that this will not inconvenience you for your further consultations with the CBI and TUC.

I am sending copies of this letter to the other members of E Committee, Sir Robert Armstrong and John Sparrow.

*Lev*

LEON BRITTAN

14 SEP 1982



Manpower

Employment measures

PT8

SUBJECT

cc Master

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Note of a Meeting held by the Prime Minister at 10 Downing Street  
on 13 September 1982 to discuss some aspects of Government Strategy

Those present

The Prime Minister

The Secretary of State for Education and Science	Professor Alan Walters 10 Downing Street
The Secretary of State for Energy	Mr David Wolfson 10 Downing Street
Mr John Wakeham Minister of State, Treasury	Mr John Sparrow Central Policy Review Staff
Mr John MacGregor Parliamentary Under-Secretary Department of Industry	Mr A M Bailey       "
Mr John Selwyn Gummer Whips Office	Mr G Hart           " Miss E Mackay       "
Mr David Young Manpower Services Commission	Mr C B B Beauman   " Mr M J Elliott       "
Mr Ferdinand Mount No 10 Policy Unit	

The Prime Minister welcomed those attending the meeting. The strategic problems of the Government were not what to do, but how it should be done. The discussion should concentrate on ways of curing unemployment (a subject on which both the CPRS and the No 10 Policy Unit had recently completed reports). There were a number of blockages to the creation of new jobs in the economy which it was most important to identify and remove. Some of those blockages were non-financial and related to over-regulation; others were more directly concerned with levels of taxation and benefit. The Government had introduced a Business Start-Up Scheme to encourage the provision of equity capital, but there was evidence that its implementation had been so hedged around with restrictions that it was not making the intended contribution; the Treasury was looking into this in consultation with the Department of Industry. There were similar problems with the scheme to encourage private housebuilding for rent.

2. Our social security system represented a major disincentive to the creation of new jobs, by making the difference between wages and what it was possible to receive in benefit too small. Few if any other

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countries provided such a generous or comprehensive safety net as our supplementary benefit system. Many of those drawing benefit already worked in the black economy (on which the CPRS had also produced a report). There was a need for people to perform many jobs for the benefit of the community, and it was important to explore whether benefit might be payable only to those who accepted offers of such work. Other countries had developed such schemes with some success. Jobs, especially for young people, would be created in greater numbers if the differential between youth and adult wages were greater - this was seen in West Germany. Wages Councils and trade unions, with the unthinking co-operation of some employers, were impediments to the development of lower youth wages.

3. It was essential that the message that lower real pay would create more jobs was put across to the country; the Government's supporters had an important role to play here. But it must also be remembered that lower unit labour costs were only half the story; industry's products must also be made more competitive.

4. In discussion, the following were among the main points made:-

- (a) The black economy might be reduced by granting a tax allowance for home improvement. This would require vouchers which would be traceable for VAT, and would thus bring some black economy service workers into the white economy. But the Exchequer effects of such a scheme would have to be carefully calculated, and it might be that black economy workers would only offer to undertake certain work if no allowance were claimed. There might be additional drawbacks if the effect of the allowance were to encourage over-investment in property to the detriment of industry. On the other hand, it was recognized that there was substantial scope for households to offer low paid service work, and it was noted that some agencies were now specializing in providing that work. But there was some evidence that the Inland Revenue and DHSS had not made life easy for these schemes; more should be done to exploit their potential.
- (b) The Youth Training Scheme had already gone some way to depressing the level of young people's wages. There was evidence that many firms were starting to negotiate those wages down to the £25 per week



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Youth Training allowance, and that wages paid to young workers after they left the Youth Training Scheme (YTS) would be correspondingly lower. YTS also represented the best opportunity of shaking up the apprenticeship system. The Manpower Services Commission (MSC) was committed to reforms here but there might be difficulty in convincing union members on the shop floor of the benefits. The Government should make a determined effort to secure progress in this area.

- (c) There might be scope for introducing changes to the benefit system, perhaps by capping benefit by reference to the level of wages last received. It might also be possible to increase incentives to work by increasing tax thresholds and the levels of child benefit (though these would be expensive) and Family Income Supplement. It was noted that only about 600,000 of the unemployed had dependent children. A large majority of the unemployed had no dependents; although their benefits were not high in relation to prevailing wages, there was evidence that the level of benefits influenced their job seeking behaviour. Changing the benefits so as to encourage the young and single to seek work more actively could not be easily stigmatized as being "unfair". This suggested that any reduction in the level of benefit should be targeted at young people without dependents.
- (d) There was a good case for tightening the rules for receiving supplementary benefit, especially for the young, eg by adopting a less selective definition of "suitable work" and by requiring evidence of active job seeking. Such changes would address the fact that young unemployed appeared to search for jobs less actively than older workers. There were attractions, especially with regard to the young, in the American idea of "workfare" whereby benefit recipients were expected to work enough hours to "earn" their benefits. Some would claim that this would amount to "compulsion", but those concerned would still have a choice whether to work or not, and the benefit system had never been intended to give an unqualified right to cash in all circumstances. There were, however, formidable difficulties in moving towards this from our present position, as experience with the Budget community work proposal had shown. The task of organization would be a large and expensive one.

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The local authorities would be in the best position to provide such jobs, but their co-operation in such a scheme could not be guaranteed.

- (e) Lowering the retirement age might release many jobs, but would, in all likelihood, place an intolerable burden on the working population, unless early retirement could be linked with a reduced pension. On the other hand, many of those approaching retirement might be interested in sharing their jobs, and it would be useful to discover if the Job Release Scheme or some other special employment measure could encourage more flexible arrangements. A scheme of early retirement and lower retirement pensions might be specially useful in helping to get over the "demographic hump" (caused by the unusually large excess of young workers over older workers approaching retirement). Reform of the system of occupational pensions might be relevant to the development of such a policy.
- (f) There was also concern about the unemployed, now in their twenties, who had largely missed the opportunities provided by special employment measures and training schemes. It might be possible to develop a voucher system for training on a part-loan, part-grant basis, designed to encourage the development and increased use of training provision in the private sector. The Manpower Services Commission were looking at such a proposal.
- (g) The education system might play a role in creating an enterprise minded society in which the creation of jobs and wealth would be promoted, and in encouraging individual responsibility. Standards of education and the employability of those who completed it needed constant attention. The Department of Education and Science would shortly be bringing forward proposals for the introduction of a voucher scheme in schools, and student loans in higher education. (The MSC scheme for training vouchers could fit in well with this approach.) It was also important to look at the position of teachers. This might involve putting them on 5-year contracts and giving real responsibility, coupled with clear duties to head teachers. And there was a need to consider what children were taught; the case for a core curriculum, previously rejected, might need to be reviewed. The case for increased parental control and more autonomy for head teachers, when coupled with the strong central interest in strategic issues, pointed to some structural redrawing

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of the responsibilities of central Government, local authorities and teaching staff; it was vital that initiatives in this field were not stifled by educational authorities or the teachers' unions.

- (h) There was a reservoir of training and educational skills in the armed forces that should be tapped, perhaps by a voluntary scheme for young people to be trained in the armed forces for a year or fifteen months. Other European countries used their armed forces in this way, and the potential for such a scheme here should be examined. But the skills taught to the young people taking part would have to be carefully identified, and there might be some opposition to such a programme from the forces themselves.
- (i) There was scope for further work on increasing share ownership; this had been somewhat discredited by the earlier share option scheme for management, but the aim should be to encourage share issues as incentives to employees.
- (j) There was some concern that parts of the voluntary sector had lost touch with the tenets of voluntarism. Those who had the responsibility for solving "problems" too often created additional ones, and removed the individual's ability to run his life in a responsible and confident way. The work of the CPRS on family policy would include an examination of the growth of professionalism especially in the public services. There might be scope here for an initiative designed to restore consumer choice to individuals in some key areas of the public sector.

5. In conclusion, the Prime Minister asked those present to note the points that had been made and to pursue work on practical proposals to remove impediments to a wealth and employment creating society. She would herself follow up the proposal to use the armed forces in a training capacity. The CPRS, as a follow-up to its unemployment study, should now develop proposals for reforming the system of benefits for unemployed people, especially the young, so as to do more to encourage employment. It would be particularly useful to draw on international experience.



9/25V

Prime Minister (2)

CABINET OFFICE  
Central Policy Review Staff

MS 14/9

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06067

From: John Sparrow

CONFIDENTIAL

13 September 1982

The Rt Hon Norman Tebbit MP  
Department of Employment  
CAXTON HOUSE  
S W 1

Dear Secretary of State  
Job Splitting Scheme

I should like to make two points about the proposals in your letter of 8 September for implementing this scheme.

My main point concerns the minimum number of hours a job must have to qualify for the scheme. As you will know, our unemployment report proposes that the minimum should be set at 15 hours so that, if employers so choose and existing job-holders agree, one at least of the pair of part-time jobs may be free from obligations under employment protection legislation, including redundancy payment.

I recognise that this would increase the TUC's opposition to the scheme and that the CBI may be prepared to adopt a 16 hour minimum which would keep all jobs within the framework of protective legislation. It is, however, my belief that unions and institutionalised management should not be allowed to dictate the terms on which employment is provided throughout the economy. As the enclosure to your letter says, in areas where union opposition is not a factor, a 15 hour minimum should encourage a larger take-up because freedom from employment protection obligations would reduce employers' reluctance to take on a new, untried, employee. The 15 hour figure would be a minimum, not a maximum, so that employers and unions in organised areas would be free to agree bilaterally that jobs of at least 16 hours should be provided in their firms.


I fully accept that the line which I am putting forward would create controversy and that it would be far from easy to win the propaganda battle with the TUC and other sources of 'progressive' opinion.

CONFIDENTIAL

If you feel you are bound to lose that battle on this occasion then it might indeed be better not to try. But you are presumably going to have to fight this battle anyway in continuing to resist the European Communities' proposed directives to give protection to part-time and casual workers - measures which I understand have recently received approval from a Select Committee of the House of Lords.

My second point is more straightforward. It is simply to draw your attention to possible variations of the job splitting scheme. These are to provide a two-tier level of subsidy, with a higher subsidy for the long term unemployed; and to allow a wider range of job splitting arrangements (e.g. two jobs split into three, etc.) to qualify for the scheme. I do not press these for the purposes of the scheme's initial introduction (though if you were to decide to go for 15 hours instead of 16, there might be some tactical advantage in introducing some new features to the scheme as a diversionary tactic). But I hope you can agree to review these possibilities when there has been some experience of the scheme in its original form.

I am sending copies of this letter to the other members of E Committee, and to Sir Robert Armstrong.

Yours sincerely  


John Sparrow

(Approved by Mr Sparrow  
but signed in his absence)

24 SEP 1982

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Manpower

Employment Measure

P1-8

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MR. SCHOLAR

The Job Splitting Scheme

We have had a look at the details of the job splitting scheme proposed in the letter of 8 September from Mr. Tebbit to the Chancellor, and we have no major points to make on them.



J. M. M. VEREKER

13 September, 1982

MR. BUTLER

NUMBER TEN UNEMPLOYMENT STUDY

1. The attached study was drafted by Professor Minford with my assistance under Alan Walters' direction. Whilst originally intended to be complementary to that of CPRS from a European standpoint, it has now been developed so as to provide some proposals of a somewhat novel and radical flavour, which have been quantified. I attach two copies of the main report and one set of annexes.
  
2. The proposals made are:
  - (a) for a 'cap' or ceiling on unemployment and associated benefits set at 70% of previous net earnings; *Wage - stop*
  
  - (b) the introduction of the 'workfare' concept whereby benefits are linked to community work;
  
  - (c) the raising of tax thresholds by 40% and child benefits by £2.15 per child;
  
  - (d) the abolition of means tested benefits-in-kind and their replacement by a more generous Family Income Supplement;
  
  - (e) the restoration of common law to all union actions, and the rendering of the 'closed shop' system null and void;
  
  - (f) the establishment of a Labour Monopolies Commission;
  
  - (g) the abolition of Wages Councils, the de-control of rents and the introduction of a regional employment subsidy.



3. The estimated economic effects of the proposals are:

(a) the Cap and related tax initiatives should reduce unemployment by 0.9 million over 5 years;

(b) the labour market monopoly proposals should reduce unemployment by around one million over 10 years;

(c) the net Exchequer costs would be around £2½bn in 1983/4, which are within reach without jeopardising the medium term financial strategy.

4. The Introduction and Summary section at the beginning - pages 1-11 - might be regarded as essential reading, along with the more important sections and summaries at pages 46/47, 62/66, 70/75, 93/97, 107/110, 132/135, 136/138 and 168/169. The Annexes provide the supporting international, historical, legal and technical material.

5. I believe Mr. Walters, who also has a copy for this weekend, may wish to add his own commentary on his return; this study has not been distributed elsewhere.

AS

10 September 1982

ADRIAN SMITH



Caxton House Tothill Street London SW1H 9NA F

Telephone Direct Line 01-213..... 6400

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*Sc JV*  
Prime Minister

To note.

*Mus 9/9*

Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
Great George Street  
LONDON  
SW1

8 September 1982

*R. Geoffrey*

JOB SPLITTING SCHEME

Although the main lines of the new Scheme were agreed by E Committee on 20 July, there are a few outstanding points on which decisions are needed. These are set out in detail in Annex 1 but my proposals are briefly as follows:

- (i) the level of subsidy to employers will be £750:
- (ii) this money will be paid in 4 instalments over a period of 12 months;
- (iii) the Scheme will apply to the public sector; I should, however, like your views on the financial arrangements for the Civil Service. I think it desirable to encourage job-splitting in the Civil Service, but there will normally be some cost involved and it may be necessary to make some provision for Departments which incur costs which they cannot meet out of existing allocations;
- (iv) the part-time jobs created under the Scheme should have a minimum of 16 hours a week.
- (v) young people under 18 should be included in the scheme, but duplication with other schemes avoided.

I am obliged under the Employment Subsidies Act to consult the CBI and TUC and I should like to write to them by 15 September. I should therefore be grateful to receive any comments you may have before then. If I do not hear from other recipients



of this letter before that date I shall assume that they are content.

I also have to secure a Resolution of the House of Commons and the agreement of the European Commission.

I am copying this letter to members of E Committee, Sir Robert Armstrong and John Sparrow.

*J. -*  
*Now*

JOB SPLITTING SCHEMELevel of Subsidy

When the Scheme was discussed by E Committee on 20 July, it was noted that the subsidy would need to be set between £500 and £1,000 with the precise level depending on further information about employers' costs and reactions. The further information which has now been received indicates that the costs which employers will incur through splitting a job vary considerably, in particular according to the length of training which is required, but that in a majority of cases the figure of £750 might both cover the costs and offer a small incentive. A subsidy at this level would still be substantially below benefit savings, and public expenditure will therefore be lower as a result of this scheme. The scheme will result in national insurance and tax losses which will probably at least offset the savings on public expenditure; however, the estimates are all subject to a large element of uncertainty and, even if there is a marginal net increase in the PSBR, the scheme remains far and away the most cost effective of all special employment measures.

It is therefore proposed that the level of subsidy should be £750.

Number of Instalments

It was previously proposed that the subsidy should be paid in 3 instalments over a period of 12 months. It is now considered that there is a reasonable chance of securing financial support from the European Social Fund for this Scheme. It is difficult to be precise about the amount which might be received but a figure of up to £2m is thought to be possible. However, the Social Fund normally requires that job creation schemes should pay 3 instalments over a period of 6 months. The cost of paying an additional instalment would be much lower than the financial support which we might receive. It therefore seems right to increase the number of instalments to 4 to strengthen the case for obtaining ESF money.

### Application to Public Sector

Since the benefit savings outweigh the proposed subsidy, there seems to be no reason  
/to exclude any part of the public sector from contributing towards its objectives.  
In the Civil Service, there is no need to pay the incentive element but it is necessary to consider whether provision should be made to cover the costs actually incurred. There may in any case be only a limited take up in the Civil Service because of the difficulty in reconciling the principle of fair and open competition with the restriction of the Scheme to those unemployed and drawing benefit; there may, however, be some scope for using the Scheme particularly in the industrial Civil Service.

### Minimum Number of Hours

At the time when Ministers considered the Scheme, consideration was also being given to the possibility of a part-time Job Release Scheme with a minimum of 15 hours (ie half the minimum for full-time JRS) and this lower limit was also proposed for the Job Splitting Scheme. Now that the part-time JRS has been rejected, the minimum for the Job Splitting Scheme must be selected on its own merits. It is not desirable, however, to have a very low threshold as benefit savings would then be at risk.

One possibility is to adopt for the Job Splitting Scheme a lower limit of 16 hours which is also the minimum which secures workers rights under the Employment Protection legislation, including redundancy payments. The TUC are already critics of the Job Splitting Scheme; they are likely to intensify their opposition if it was thought that the Government was encouraging employers to move employees into jobs to which the Employment Protection legislation does not apply, and there must be a risk that take-up would then be affected. CBI officials also favour 16 hours.

On the other hand a minimum of 15 hours as previously proposed might encourage a

larger take-up by employers, especially in unorganised areas of the economy, because the obligations arising from employing the part-time workers would be significantly reduced.

A minimum of 16 hours is proposed, which should assist the scheme to start in a less controversial atmosphere.

#### Treatment of Young People Under 18

The following arguments support their exclusion:

(i) Encouraging young people under 18 to take part-time jobs might be a source of criticism, and there is a risk of confusion if the number of schemes to help young people is increased.

(ii) Since young people under 18 on average draw less benefit and pay less National Insurance than older people, their exclusion will have a beneficial effect on the finances of the Scheme and reinforce the saving to the PSBR.

The following arguments support their inclusion:

(i) Some employers have already shown interest in job-splitting among this age group (eg the GEC experiment in Coventry) and, while nothing firm has been said, some expectation has been created that this kind of scheme would benefit.

(ii) Their exclusion removes the possibility that young people leaving YOP and unable to find a full-time job could be found a part-time job under this Scheme (unless they had already reached

their 18th birthday).

It is proposed that under-18s should initially be included but that this decision should be reviewed when some experience has been gained of the Scheme's operation. They would not be eligible for other assistance at the same time, eg Young Workers Scheme, Youth Opportunities Programme or, in the future, the Youth Training Scheme.

Manpower : Special Emp Measures  
Pt 8.



29 SEP 1981





10 DOWNING STREET

From the Private Secretary

17 September 1982

cc MR MOUNT  
BF  
JF

✓  
The Prime Minister has asked us to provide some figures, on which she will draw in various speeches in the months ahead. I wonder if you would be able to help us with these?

The Prime Minister wishes to deploy the argument that there are shifting patterns of employment over the years, and that we have experienced in this country considerable reductions in the labour force in various sectors - often during periods of falling unemployment; and that these "jobs lost" have been replaced by growth of employment in other sectors. The particular examples she has in mind are coal mining, agriculture and textiles. Could you produce a table with some striking examples of this, taking, say, 1960 and the most recent figures as the years on which the comparisons would be based? If the point can be made even more strikingly by choosing a longer or shorter timescale, that, too, would be of interest to the Prime Minister.

We would also like a table which would illustrate the reduction in the labour force employed in manufacturing in recent years, together with a table showing the split between private and public sector manpower over the same period. It may be that you could simply draw our attention to statistics already published in these cases (and perhaps in other cases referred to in this letter).

The Prime Minister is also looking for some quantification of current jobs which did not exist ten years ago - because, say, the product or service concerned was not then available. I wonder if there are any measures which you might suggest?

The Prime Minister is also looking for some figures to illustrate the argument that the number of school leavers coming on to the labour market in recent years has been such that, even if there had been no recession in the UK, there would have been a substantial increase in unemployment. How many 16-year-olds are currently in employment, and what proportion of the workforce do they represent?

/It would be

It would be convenient, too, if your reply to this letter could contain up-to-date material on the numbers who join and leave the unemployment register every week/month/year.

Could you let us know the number of work permits which are issued each year, broken down into the numbers employed in the hotel and catering industry?

Finally, I would be grateful for any information you may have about the extent to which redundancy payments are being used to finance the establishment of new enterprises. The Prime Minister is under the impression that Finance for Industry have produced some material on this point.

I would be grateful if you could let me have a reply by next Wednesday, if at all possible.

M. C. SCHOLAR

Miss Marie Fahey,  
Department of Employment.



cc JV

Caxton House Tothill Street London SW1H 9NA

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Michael Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1

✓ September 1982

Dear Michael

JOB RELEASE SCHEME : COSTS

I wrote to you on 2 August <sup>TPM</sup> giving some costings for JRS. I am afraid there was an error in the table I attached, which has just come to light. Coverage (mid-year) for the current scheme should read 79,500, rather than 62,900 as stated. I apologise for having misinformed you.

Yours ever

Rosalind McCarthy-Ward

ROSALIND McCARTHY-WARD  
Private Secretary



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06 SEP 1982

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PART 7 ends:-

Dr Pickard to Burns 20/8

PART 8 begins:-

ps/Emp to mcs 6/9

~~AW to PM 2/9~~

